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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, TEHRAN
DESP. NO. 664

TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 8, 1956
DATE

REF :

15 For Dept. Use Only	ACTION NEA-4	DEPT. INFO RM/R-2 REP-2 OLI-6 ICA-10 E-5 EUR-5
	REC'D 2/13	OTHER CIA-5

SUBJECT: Transmittal of Memorandum of Conversation between Officer of USOM/I and Mr. Prud'homme of the Plan Organization

Submitted as an enclosure to this despatch is a memorandum of conversation between an officer of USOM/I and Mr. Hector PRUD'HOMME, Chief of the Technical Bureau of the Plan Organization, who is on two years leave from IBRD.

FOR THE AMBASSADOR:

Peyton Kerr
Peyton Kerr
Counselor of Embassy
for Economic Affairs

Enclosure:

As stated above.

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REC'D
43 FEB 14 1956
Economic Section

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REPORTER

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TO : Director, USOM/Iran

January 28, 1956.

FROM: B. Heilpern, Chief, Fiscal and Monetary Affairs Division

Attached is a brief report and comments on a private discussion I had with Mr. Prud'homme at an informal private dinner party on January 27, 1956.

The essence of this discussion is:

1. Mr. Ebtehaj means well but his Napoleonic attitude and overbearing manner make it difficult to maintain friendly cooperation with others.

2. His staff is not qualified; he knows it but will not admit it.

3. Any recommendation by us to Plan will be useless, unless we make clear and detailed suggestions as to how such recommendations will be carried out.

4. The lack of proper aides offsets Mr. Ebtehaj's ambitions and strong efforts,-hence he needs help.

Highlights of Mr. Prud'homme's Statements in regard to Attitude and General Concept of Mr. Ebtehaj in his Dealings with all Agencies including U.S. Government

1. Mr. Ebtehaj considers himself a little Napoleon. He believes that he is the first person in Iran to approach the Seven Year Plan with the iron will to have it carried out. He does not care for the methods or authority of other Ministries, nor does he care over whose head he operates because he believes that only <u>he</u> is able to get things done.

2. His attitude toward, and frequently insulting statements about, leading figures in Iran are based on the unsatisfactory record of the Government in the past and on the confidence shown in him by the Shah.

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3. He is not responsible for the uncoordinated and overambitious program of the Plan. He is pushed by the Shah who is anxious and impatient to develop the economy and to catch up with numerous delays in action. Only two days ago Mr. Ebtehaj told him that the Shah had called reproaching him for things going too slow. The Shah had reportedly said that for the last year no development took place in road and harbor construction and asked him why the planned steel plant (Krupp-Demag) had not been started. Mr. Ebtehaj is, therefore, under constant pressure, is highly nervous, and cannot concentrate on systematic approaches.

4. Mr. Ebtehaj does not see eye to eye with Mr. Prud'homme in that he will not be able to spend all the money within the projected time. He, Mr. Ebtehaj, really believes he can do that.

5. Mr. Ebtehaj is seriously handicapped by a lack of skilled staff. He realizes it but will never admit it in public.

6. He feels insulted if one points out the shortcomings of certain aides whom he has picked. By naming a certain person, Mr. Prud'homme confirmed my previous judgment that this person is utterly incompetent. Mr. Prud'homme stated that in such cases, Mr. Ebtehaj would immediately react violently and, for instance, say: I have been Governor of the biggest bank in this country, therefore, I am absolutely able to evaluate my appointees, and nobody can tell me they are not competent.

He also will say, in other cases, he cannot admit mistakes in public. Mr. Prud'homme believes that such an attitude is Mr. Ebtehaj's greatest weakness and yet one should not act negatively and form a policy on such human weakness.

7. Private Enterprise. Mr. Ebtehaj is definitely not against private enterprise but believes that, at present, the operational and managerial deficiencies in public enterprises are smaller than in private enterprise and that, at present, private enterprise has no ethics nor other professional standards. Speculators and crooks are the present type of "free enterprise" and, if let loose now, the economy would be endangered.

Note: When asked whether "not being against free enterprise" would not necessarily mean "pro free enterprise", Mr. Prud'homme merely smiled but did not answer. The same happened when

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Mr. Prud'homme was asked what Mr. Ebtehaj has suggested to improve such situation by training and/or setting up a campaign for free enterprise, etc.

8. Mr. Prud'homme believes that our (U.S.) mistake is that we merely suggest certain things, a certain standard procedure as used in U.S.A., throw it at the Plan Organization (sugar deal) and stop our assistance from thereon. Mr. Prud'homme stated that Plan Organization is not able to carry out such recommendations, but that we should explain and suggest how our recommendations should be carried out.

This mistake, in his opinion, is the reason why many U.S. recommendations are not carried out, while Plan would not admit that it is unable to do so.

For this, Mr. Prud'homme gave the following illustrations:

a. Somebody comes to Mr. Ebtehaj's office and makes recommendations. Mr. Ebtehaj is impressed, calls them excellent and calls in his aide, tells him immediately to go ahead and to draft a plan. The man never comes back, simply because he does not know what to do.

b. Southafrican Mining Corporation people discusses with Mr. Ebtehaj the investment law. They ask how much profit they may take out. Mr. Ebtehaj calls his aide who says "we think" it is approximately 15% of net profit. The British ask how much precisely. They do not get any clear answer and approach the competent Ministry where they also get no clear answers. The British then take a draft, fly home, compare Iranian laws with laws of other countries. Then they return, point out the greater benefits granted to investors by other countries and ask for the same by finally drafting a clear suggestion and requesting approval.

This is the only way, Mr. Prud'homme states, to achieve something.

Note: I have recommended several times that we must make recommendation as to how certain suggestions should be carried out. I was told that this means interference with the internal affairs of Iran, or could be interpreted as such.

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9. Mr. Prud'homme finally stated that his bank (IBRD) if financing or assisting operations of the newly-created Industrial Bank, would never accept the present management but would appoint a management of its own choice.

Note: This concurs 100% with my observations as presented in a memorandum on the Industrial Credit Bank of Plan, and concurred in by Mr. Gauthier in his report.

Comments:

For an appraisal of this discussion, it should be pointed out that I am not a stranger to Mr. Prud'homme; our acquaintance dates back to 1948 when we served together with the U.S. Military Government in Germany.

It is my impression that Mr. Prud'homme is fully aware of the personal and other difficulties of his task. He apparently realizes that he will barely be able basically to change the situation in the two years of his assignment but he will "try his best".

The situation as presented may create the following problems:

(1) Should we disregard personal treatment by Mr. Ebtehaj and cope with his attitude, face the present face of his staying in power in order to promote cooperation or

(2) Must he be made to realize ourimportance and adopt more conciliatory and less dictatorial manners if he wants cooperation.

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FROM : AMEMBASSY, TEHRAN

April 18, 1956

TO : THE DEPARTMENT OF STATE, WASHINGTON.

OCR

REF. : CERP April 30, 1954, D-5 and 7; Despatch 23 of July 16, 1955; Despatch 477 of December 15, 1955.

SUBJECT: Iran's Second Seven-Year Development Plan.

17 NEA-4 4/24 RM/R-2 oli-6 E-4 ICA-10 Rep-2 4/OA-1 EUR-3 Cia-6 Com-12 ag-8 FRB-2 IN-1 LAB-4 TAR-? XMB-3 OSD-4 army-4 USIA-1 sent Navy-3 air-3 OCB-1 11/26/57 to Sunderland

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SUMMARY

The Shah signed into law Iran's Second Seven Year Development Plan on March 13, 1956. This Plan, which is a loosely drawn affair, calls for expenditures of 70 billion rials (approx. $920 million) over the next seven years. It provides for a broad attack on the country's economic and social backwardness and, if implemented, will fundamentally alter the conditions of life in Iran.

Although no general concept seems to have inspired the formulation of this Plan - moneys are allocated where they are needed, which is everywhere - it appears that Ebtehaj, with the backing of the Shah, has decided to give priority to long term development at the expense of immediate results. A Social Improvement Program, however, has been devised to act as a palliative. (This Program embraces municipal - development projects.) Still, a rising demand for material benefits from all classes of Iranian society will mean continuing pressure on the Organization for achievements. Furthermore, the Plan can only be implemented by the employment of large numbers of foreign firms and technicians, however great an effort may be made for the training and education of Iranian personnel.

It is clear that successful implementation of this Development Plan depends upon continuation of a strong and stable central political authority. In turn, the continued stability of the Government requires the orderly fulfillment of the Plan.

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INTRODUCTION

Submitted as an enclosure to this despatch is the text of the second Seven-Year Development Plan called the "Plan Organization Bill", passed by the Senate on February 21st and by the Majlis on February 28th and signed into law by the Shah on March 13, 1956. The Plan sets forth expenditures in the amount of 70 billion rials (about $920 million) derived from oil revenues to be spent on various programs over the next seven years beginning September 24, 1955 (first day of the second half of 1334 and not March 22, 1955, first day of 1334, as was provided in the original bill).

1/27 [illegible] to attention of E (M. Dunn)

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Responsibility for implementation of this Plan is vested in the Plan Organization, but it is the Council of Ministers which is made responsible before the Houses of Parliament. The law as enacted is an amended version of the Government's revised bill which was analyzed in Despatch 477 of December 15, 1955, Considering its long legislative history, however, there is surprisingly little difference between this law and the bill originally proposed by the Government in June 1955 and transmitted in Despatch 23 of July 16, 1955.

Legislative History

In view of the detailed analyses of Parliamentary proceedings reported in several despatches, the present despatch proposes only to summarize the legislative history of the bill.

The original Government bill was written in June 1955. A revision was presented to the Majlis on November 13, 1955. In order to expedite the passage of the bill, which was recongnized as of primary importance, the Majlis created a special Committee of 36 members, representing all the interested committees. The principal points at issue soon appeared to be the extent of authority granted the Organization in controlling expenditure of the oil revenues and the relative degree of authority of the Organization and the various Ministries. Both issues stemmed, in large measure, from the violent opposition of most Deputies and many Ministers to the Organization's Director, A.H. EBTEHAJ.

This opposition was apparent in the proceedings of the Committee. It was only through extreme pressure from the Court that the Committee finally returned the bill to the Majlis with only a few amendments mostly tending to encourage short-term, impact-type projects. The Senate, however, took a strong stand, holding that the bill was not a financial bill and must therefore be presented to the Senate for its approval. This was done. In the Senate, the opposition was able to make itself felt even more clearly than in the Majlis. The Senators were not subject to the same pressures since they are not up for reelection, and also because the Senate President, TAQIZADEH, persuaded the Shah that the Senate should be allowed to circumscribe the Director's authority, since the bill as written was too dependent on the personality of a Director who was liable to be changed. The Senate was therefore able to make a number of amendments which had the effect of establishing closer Parliamentary control over the Organization's operations. A Joint Committee of both Houses (instead of the former Majlis Committee) was proposed as the controlling body. The authority of the Senate has been thereby enhanced and brought to bear on the Organization. The bill as amended was passed by the Senate on February 21st and by the Majlis, to which it was returned on February 28th. The Shah telegraphed his approval from India on March 6th and signed the bill after his return on March 13th.

The Second Seven-Year Development Plan

Considering the nine months taken for its passage and the grave issues which it raised, the new law governing Iran's second Seven-Year Development Plan is surprisingly little different from the bill presented in June. It recasts and clarifies the first bill and makes its provisions more detailed and precise. Many articles as originally written have been incorporated into the law and the basic concept of the Plan has been retained. The present despatch purports to review the entire law for the sake of comprehensiveness, but, in view of the detailed analyses already given, emphasizes only the main points. The following review, however, should be read with this caveat: the figures and programs detailed in the Plan are mere estimates, offering only the bare outline of what might be termed a Plan.

Article 1 sets forth the purposes of the law and makes the Government responsible for carrying out the programs which constitute the Plan within a period of seven years beginning September 24, 1955. Two Notes are appended to this Article. The first calls for giving "productive operations, such as road building, completion of railways, ports, irrigation, agriculture, plant disease control, building of dams, construction of factories and facilitating means of exploiting mines ....priority before other non-productive operations." The Note was incorporated into the new bill in response to the fear that the Organization's revenues might be diverted to "strategic purposes" as well as to satisfy an increasingly pressing demand for achieving early concrete results. The second Note requires the Government to draw up a statement of account of the first Seven-Year Plan. This Note is one of the amendments proposed by the Senate and a reflection of a widely-held opinion that the oil revenues for the first Plan were generally dissipated.

Article 2 gives a breakdown of the amounts to be spent according to various categories, chapters, and programs. This Article and the next form the core of the law. In effect, they are the Plan, loose as it is. The following amounts are specified for programs underway and for which funds have been allocated:

Agriculture and Irrigation	6,260 million rials
Communications	5,367 million rials
Industries and Mines	2,759 million rials
Public Utilities	2,814 million rials
	17,200 million rials

The second category includes proposed programs as follows:

Agriculture and Irrigation (Chapter I)	9,458 million rials
Communications (Chapter II)	17,454 million rials
Industries and Mines (Chapter III)	6,801 million rials
Public Utilities (Chapter IV)	15,587 million rials
	49,300 million rials.

The third category includes programs still to be formulated:

Agriculture and Irrigation	2,500 million rials
(Mention is made of the desirability of erecting a chemical fertilizer plant.)	
Industries and Mines	1,000 million rials
	3,500 million rials
Grand Total	70,000 million rials

The extensive reallocation of funds among chapters and programs as set forth in the June plan and those in the present one submitted in November clearly indicates that the programs have been drawn up in very general terms only. The original bill of June contemplated total expenditures of 68 billion rials. The difference of two billion rials between the grand totals is due to an increase in the amount allocated to Highways and Asphalted Roads (7,960 million rials against 5,960 millions). The clearest example of the looseness of the planning is the reallocation in February 1956 of 1,600 million rials from the third category (uncommitted funds) to the Sugar Industry Program under the second category - at the insistence of the Majlis Committee which felt that Iran should reduce its dependency on imported sugar.

A Note was appended to Article 2 which provides the basis for financing what is termed the Social Improvement Program for municipal development. The Note grants the Organization authority to cover half the costs of municipal development projects - the other half to be financed by the municipalities, - and to grant loans to municipalities with incomes of less than one million rials a year and for projects which are undertaken by "the people without participation of the municipality".

Article 3 contains tables showing the yearly allocation of expenditures for the second category according to chapters and programs for each of the seven years. Comparison of these figures with those of the first plan also indicates extensive shifts in allocations, and again evidently without a new planning concept.

Article 4 requires that the Plan Organization prepare detailed programs to be presented for the approval of the Joint Committee of both Houses. Since the passage of the bill, presentation of these programs before the Committee has proceeded apace. This presentation will indicate how detailed are the programs presented to the Committee and how general is the Committee's grant of authorization to the Organization. This matter will be the subject of a further despatch.

Article 5 (virtually the same as Article 13 of the original bill) defines the Organizations's authority to shift allocations from Chapter to Chapter and from Program to Program. For any important reallocation, however, the

permission of the Cabinet and the Joint Committee is required.

Article 6 provides that approval of the Committee is required for utilization of unexpended allotments.

Article 7, a new provision, provides that the Organization's work shall be distributed around the country.

Article 8 governs the Organization's income. This Article is clearer and better defined than Article 10 of the previous bill. It provides that the Ministry of Finance will reciève 10 percent of the oil revenues for the years 1334, 1335, and 1336, as well as any surplus remaining from the NIOC's share after settlement of the Company's approved expenditures. The balance of the total income from oil revenues is to be turned over to the Plan Organization. This balance is estimated to amount to 60 percent of the total. In the last four years of the Plan, 80 percent of the oil revenues will be allocated to the Organization and 20 percent to the NIOC. The surplus from the NIOC's income, after meeting expenditures, will be turned over to the Ministry of Finance, as will 5 percent from the Organization's share if it can be shown that this amount is needed "for the maintenance and management of the non-profit establishments".

The Senate wrote two amendments to this Article (Notes 2 and 3) which are addressed to the problem of utilizing the oil revenues for economic development to the maximum extent possible and, at the same time, providing the Government with sufficient funds to balance the general budget. Note 2 provides that the Ministry of Finance shall receive all funds from oil revenues in excess of $144 million in the year 1335 and in excess of $188 million in each of the years 1336 and 1337. These figures are believed to be those cited as estimates of Iran's oil revenues by Mr. Page, the Consortium's chief negotiator, at the time of signature of the Oil Agreement in October 1954. In effect, Note 2 gives the Government legal authority to use oil revenues above those stipulated in the Agreement for the general budget. The Note was inserted after the Government's request to the Consortium in February to increased oil production. Appreciable support for the general budget may therefore be expected from the oil revenues over the next three years. In another paragraph, this Article states that the Government is "duty bound to adopt measures in order that from the year 1337 the general budget deficit of the country shall not exceed the amounts allocated from the oil income...."

Note 3 authorizes the Government (and not the Organization) to raise up to $240 million in loans during the years 1334, 1335, and 1336 to meet what is calculated to be the Organization's deficit in fulfilling its requirements. The expenditures of these loans, however, are subject to the approval of the Joint Committee. The withdrawal of the Organization's authority to raise loans in its own name is one of the principal limitations placed on the Organization's independence in the new law.

Article 9 declares the Organization to have a "corporate personality and fiscal independence" and sets forth the Organization's functions. This Article is similar to Article I of the original bill, except for a Senate amendment which requires the Joint Committee's approval of the Organization's statement of account after an audit by the Government.

Article 10 is concerned with the Organization's method of operation. It should be noted that when consulting engineers are employed, they are made responsible for recommending the selection of manufacturers and contractors. Articles 9 and 10 grant the Organization primary responsibility for carrying out the Development Plan and the expressed authority to control the work done under this Plan by the Ministries and other agencies of the Government. However, a Majlis Committee amendment makes the Cabinet responsible for settlement of differences between the Organization and Government agencies. Tucked away in Article 10 is a paragraph which directs the Organization "to facilitate the encouragement and investment of private capital by formulating projects, giving directions, technical aid, participation, granting credit or procuring credit from internal and foreign sources". The intent is good, but fulfillment will depend on the attitude of the Organization's Director and on the pressure exerted by private interests.

Article 11 sets forth the functions and duties of the Managing Director, the High Council and the Control Board. The Director is appointed for a term of three years by Imperial decree upon the proposal of the Government, the seven members of the High Council for the full term of the Plan, and the six members of the Control Board for two years. The approval of the High Council is required for contracts and plans prepared by the Director.

Article 12 states that "The Government is responsible for the Plan Organization before both Houses of Parliament". This article clearly subordinates the Organization to the control of the Government.

Article 13, 14, 15, 16, 17 and 18 are essentially similar to Articles 2, 3, 4, 5, 6, and 16 of the earlier bill and are of small consequence. Article 16 which deals with the appropriation of lands and Article 17 which deals with unearned increment of properties are believed to be unmanageable.. The only amendments of interest to these Articles call for the approval of the Joint Committee of regulations which are to be drawn up later regarding the internal affairs of the Organization (Art.13), expropriation of lands (Art.16), and unearned increment (Art.17).

Finally, Article 20 requires that the approval of the Cabinet and of the Joint Committee be obtained for the hiring of foreign experts.(The inclusion of the Committee is another Senate amendment)

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COMMENT

All things considered, the Plan law is probably as good an instrument as might be expected under present circumstances. It provides the Organization with a framework in which to work and with sufficient authority and scope to carry out the Plan. The Plan itself bears no resemblance to those of

certain other countries which contain detailed and precise goals of production, construction and accomplishments. Iran's Plan is a loose affair which offers no concept of the future economy's configuration.

As mentioned above, criticism of the concept of a separate Plan Organization has largely stemmed from opposition to Ebtehaj. Continuance of the Organization as a separate agency with a large measure of indepen - dence is due largely to the strong feeling that the greatest possible share of oil revenues should be devoted to economic and social development and that revenues should be so earmarked. If these revenues were allotted to the general budget, the feeling is that they would be dissipated. The consequences of creating a separate organization with executive functions-e.g., conflicts between the Ministries and the Organization, coordination of programs, control of the funds, etc.-will continue to be difficult problems and will undoubtedly generate severe tensions.

Laws are only as good as the men who execute them, particularly in Iran. Ebtehaj has been Director of the Organization for over 18 months. He has formulated the new Seven-Year Development Plan and has begun to establish a pattern for its execution. He has hired foreign advisers, established procedures of bidding, and awarded large contracts. But this is a one-man show and there is no assurance that Ebtehaj will not be replaced. He has a host of enemies and could not continue as Director if the support of the Shah were withdrawn. It is obvious that a new director with different ideas might seriously upset implementation of the Plan.

As in other under-developed countries, economic development has become a magic phrase in Iran. While not clearly understood, it is a primary aspiration of people of all classes. Simply stated, it probably means that Iran should become a modern industrial state and that the demands of the people for a better material life should be satisfied. More subtly, it also probably means that Iran should develop strength and confidence so that Iranians will not feel inferior to people of the more advanced nations. In view of the backwardness of the country, the task of developing Iran into a modern state is immense - in scope and in complexity. The law as formulated represents a broad general attack on the whole problem. Without further details regarding the program, however, it is difficult to foresee how the Plan will unfold. Specifically, it is impossible to assess the wisdom of the program's priorities or to evaluate the economic impact of the Plan. In all probability, it will generate inflationary. pressures.

Nevertheless, two major problems stand out clearly. One is the problem of trained personnel.. It is understood that the Plan Organization proposes to give due emphasis to the training and education of personnel., But training of capable persons is a slow process. Already the Organization has acutely felt the shortage of qualified people and Ebtehaj has come to rely more and more on foreign advisers. Most of the Plan's large programs will undoubtedly have to be carried out by foreign firms and technicians. This raises the question of the political acceptability of so many foreigners becoming involved in the country's development program. A revulsion toward

foreigners, such as occurred under Dr. MOSADEQ, may well occur and could largely wreck the Plan.

The second problem concerns long-term versus short-term benefits. The opinion is widespread in Parliamentary and informed circles that the Organization is undertaking projects which are too grandiose for Iran and which offer no prospect of early improvement in living conditions. These circles feel that the oil revenues should be devoted to projects which have a direct impact on the lives of the masses. In particular, there is strong suspicion in the minds of many Iranians that certain projects (e.g., improvement of ports and airfields) are being undertaken for strategic purposes rather than for their economic value. Nevertheless, Ebtehaj understands the necessity for carrying out basic construction projects and has evidently chosen to give priority to these long-range undertakings with the backing of the Shah. Ebtehaj seems to have been persuaded, however, that the pressure of public opinion requires some immediate results and, to satisfy this opinion, the Organization has launched the Social Improvement Program to build schools, hospitals, power stations, power and water distribution systems in all the cities of the country. The prospect is, therefore, that there will be a certain degree of compromise between long and short-term plans.

The success of the Plan is directly dependent on a strong, stable, central political authority. On the other hand, in view of the growing demand for results, reasonably prompt fulfillment of the Plan is essential for maintenance of political stability.

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Approved by:

Peyton Kerr

Peyton Kerr
Counselor of Embassy
for Economic Affairs

For the Ambassador:

Christian Chapman

Christian Chapman,
Second Secretary of Embassy

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Page 1 of
Encl. No. 1
Desp. No. 887
From AmEmbassy, Tehran

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BY THE GRACE OF GOD THE ALMIGHTY

WE, PAHLEVI, the SHAHINSHAH OF IRAN,

by virtue of Article 27 of the Supplementary Act of the Constitutional Law, herewith ordain:

Article 1: The Second Seven Year Development Plan of the Country, approved by both Houses of the Senate and Consultative Assembly, annexed to this order, shall be enforced.

Article 2: The Government is assigned the Execution of this Law.

22 Esfand, 1334 (March 13, 1956)

SECOND SEVEN YEAR DEVELOPMENT PLAN OF IRAN

Article 1.

With a view to increasing production, developing exports, preparing public necessities within the country, developing agriculture and industries, discovering and exploring mines and subterranean resources, improving and completing means of communication, improving public health, fulfilling any operations designed for the development of the country, raising the educational and living standard of the people and improving living conditions, the Government is duty bound, while executing programs already in process, (the remaining credit balance of which amounted to 17200 million rials on the 1st of Mehr 1334 - September 24, 1955) in accordance with the Plan Law of 26 Bahman 1327 (February 15, 1948) and the legal ruling of the Plan Committee of the Majlis of 23 Bahman 1333 (February 12, 1955) to execute the operations, subject of article 2, the total credit of which has been fixed at 52800 million rials, from the date of the approval of this Law until the end of Shahrivar 1341 (September 22, 1962). The aggregate of operations already in process and operations foreseen in this Law constitute the Second Seven Year Development Plan of Iran.

<u>Note:</u> In the execution of programs, insofar as feasible, productive operations such as road building, completion of railways, ports, irrigation, agriculture, plant disease control, building of dams, construction of factories and facilitating means of exploiting mines, shall have priority before other non productive operations and shall be carried out [illegible] neously with each other.

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Note 2: The Government is required to draw up a statement of account of the operations of the first Seven Year Plan Organization from the time that it started up to Mehr 1, 1334 (September 24, 1955) within three months for submission to the Joint Plan Committee of both Houses.

Article 2;

For the execution of the second seven-year development plan in addition to the amounts specified below already approved and allocated for programs in process:

Agriculture and Irrigation	6,260 million rials
Communications	5,367 million rials
Industries and Mines	2,759 million rials
Public Utilities	2,814 million rials
Total	17,200 million rials

funds have been allocated in each of the various economic and social fields, as follows:

Chapter 1 - Agriculture and Irrigation

Part A - Programs the elements of which have been established:

	Million Rials
1 - Irrigation and dam construction surveys	228
2 - Agricultural and Irrigation Training	266
3 - Cultivation, and improvement of crops	553
4 - Animal Husbandry	976
5 - Plant pests	915
6 - Forests	1098
7 - Development of villages and barren lands	565
8 - Agricultural Extension	362
9 - Agricultural Machines	459
10 - Meteorology	94
11 - Rural Economy and Agricultural Engineering	124
12 - Silos	265
13 - Agricultural Industry	145
14 - Irrigation and Dam Construction	2408
15 - Loans for Qanats and deep wells	1000
Total	9,458

Part B - Credits Foreseen for Programs the Elements of which will be established later with particular reference to the establishment of a Chemical fertilizer plants. 2,500 million rials
Total of Chapter 1 11,958 " "

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Chapter II - Communications

Part A - Programs the Elements of Which Have Been Established:

	Million Rials
1 - Highways and Asphalted Roads	7,960
2 - Railways	4,125
3 - Airdromes	1,085
4 - Ports	2,392
5 - Communications	1,451
6 - Mapping	441
Total of Chapter II	17,454

Chapter III - Industries and Mines

Part A - Programs the Elements of Which Have Been Established:

	Million Rials
1 - Textile Industry	558
2 - Sugar Industry	1715
3 - Cement Industry	1,030
4 - Mines	240
5 - Copper Smelting	80
6 - Iron Smelting	2,000
7 - Refractory Materials	40
8 - Fisheries	36
9 - Laboratories	45
10 - Professional Training Centers	45
11 - Industrial Cities	75
12 - Industrial Credits	937
Total	6,801

Part B - Credits Foreseen for Programs the Elements of Which Will Be Established Later - 1,000 Million Rials

Total of Chapter III 7,801 " "

Chapter IV - Public Utilities

Part A - Credits Foreseen for Programs the Elements of Which Have Been Established -

	Million Rials
1 - Public Health	5,822
2 - Education	2,070

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		Million Rials.
3 -	Electricity for Provinces	1,500
4 -	Hydroelectric and Steam Turbines	978
5 -	Utilities and Services in Provinces	4,390
6 -	Statistics and Census	200
7 -	Aid to Cooperatives and Producing Companies	400
8 -	Aid to Social Insurance Organization for Workers	225
	Total of Chapter IV	15,587
	Total of the Four Chapters	52,800

Note: In cases of electric power for cities, public utility and municipal operations such as the supplying of potable water, establishment of slaughter houses, mortuaries, enlarging of streets, asphalting of streets, laundry houses, bath houses and public toilets, flood dams, drying of marches: if operations are carried out through the municipality or through the participation of the municipality and the people, the Plan Organization will place at the disposal of the municipality gratuitously half of the expenses. If the operations are carried out by the people without participation of the municipality, the Plan Organization will give half of the expenses as a loan for a period of not more than 8 years at a maximum interest rate of 6 per cent per annum. Expenses made before the execution of this Law by Municipalities which fall under the above mentioned development and municipal operations, but which are still incomplete, if executed in a proper manner, will be appraised by the Plan Organization for being included in the 50% share of the local municipality.

Municipalities can pay their share in installments to the account of the Plan Organization in such a manner as is required for the purchase of materials and equipment or for payment to contractors, provided that the Plan Organization is assured of the payment of installments. If the municipality should refrain from the payment of any installment of its obligations, the Plan Organization whall be entitled to refrain from carrying out the obligations entered into for the Municipality and recover all funds paid to the Municipality.

Municipalities which will avail themselves of the aid of the Plan Organization provided under this Law, are required to pay part of their revenue as determined by the Ministry of Interior and the Plan Organization this part being in any case not more than 20% of their yearly income, to the account of the Plan Organization, for ensuring their share of municipal operations. The Plan Organization will grant loans of 5 million rials maximum for a period of seven years without interest to any of the municipalities whose municipal revenue is less than one million rials per year, provided that this loan is exclusively spent for the supply of power and/or potable water. In all the above mentioned cases operations shall be carried out in accordance with the Plan and

under the control of the Plan Organization. In the case of profit making operations, such as water and power etc., the sale price will be fixed ~~mx~~ with the consent of the Plan Organization in order to avoid oppressing consumers.

By city is meant the region which possesses a lawful municipality as certified by the Ministry of Interior.

Article 3.

Funds specified under A items of Article II shall be distributed over the seven years as follows:

Second Half of 1334	Year 1335	Year 1336	Year 1337	Year 1338	Year 1339	Year 1340	Year 1341	Total
In Millions Rials								
Chapter I – Agriculture and Irrigation								
1. Irrigation and Dam Construction Surveys:								
–	28	33	41	34	57	35	–	228
2. Agricultural and Irrigation Training:								
–	43	64	54	51	34	17	3	266
3. Cultivation and Improvement of Crops:								
–	115	124	90	77	60	60	27	553
4. Animal Husbandry:								
–	66	157	175	173	173	164	68	976
5. Plant Pests:								
–	5	186	166	162	160	160	76	915
6. Forests:								
–	110	160	220	200	160	160	88	1,098
7. Development of Villages and Barren Lands:								
–	30	127	135	112	82	59	20	[illegible]

Second Half of 1334	Year 1335	Year 1336	Year 1337	Year 1338	Year 1339	Year 1340	Year 1341	Total
			In Millions Rials					
8. Agricultural Extension:								
-	-	50	70	70	70	70	32	362
9. Agricultural Machines:								
-	-	185	183	84	4	3	-	459
10. Meteorology :								
-	8	11	22	25	28	-	-	94
11. Rural Economy and Agricultural Engineering:								
-	-	24	25	25	25	255	-	124
12. Silos:								
-	80	105	80	-	-	-	-	265
13. Agricultural Industry:								
-	41	67	37	-	-	-	-	145
14. Irrigation and Dam Construction:								
-	434	600	541	393	305	135	-	2,408
15. Loan for Qanats and deep wells:								
-	100	250	250	200	100	100	-	1,000
Total:								
-	1,060	2,143	2,089	1,606	1,258	988	314	9,458
Chapter II - Communications								
1. Highways and Asphalted Roads:								
200	300	2,000	1,500	1,500	1,000	1,000	460	7,960
2. Railways:								
500	900	1,200	1,000	525	-	-	-	4,125

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Second Half of 1334	Year 1335	Year 1336	Year 1337	Year 1338	Year 1339	Year 1340	Year 1341	Total
				In Millions Rials				
3. Airdromes:								
-	200	320	320	245	-	-	-	1,085
4. Ports:								
200	360	600	580	340	312	-	-	2,392
5. Communications:								
-	200	300	300	300	150	101	100	1,451
6. Mapping:								
-	14	60	60	70	70	100	67	441
Total:								
900	1,974	4,480	3,760	2,980	1,532	1,201	627	17,454
Chapter II - Industries and Mines								
1. Textile Industry:								
-	240	238	80	-	-	-	-	558
2. Sugar Industry:								
-	180	370	540	440	185	-	-	1,715
3. Cement Industry:								
-	400	500	130	-	-	-	-	1,030
4. Mines:								
-	84	124	32	-	-	-	-	240
5. Copper Smelting:								
-	30	[illegible]	[illegible]	-	-	-	-	[illegible]
6. Iron Smelting:								
-	[illegible]	[illegible]	800	820	-	-	-	[illegible]

Second Half of 1334	Year 1335	Year 1336	Year 1337	Year 1338	Year 1339	Year 1340	Year 1341	Total
			In Millions Rials.					
7. Refractory Materials:								
-	15	15	5	5	-	-	-	40
8. Fisheries:								
-	10	16	10	-	-	-	-	36
9. Laboratories:								
-	14	18	13	-	-	-	-	45
10. Professional Training Centers:								
-	15	15	15	-	-	-	-	45
11. Industrial Cities:								
-	25	25	25	-	-	-	-	75
12. Industrial Credits:								
-	300	400	237	-	-	-	-	937
Total:								
-	1,553	2,401	1,897	765	185	-	-	6,801
Chapter IV - Public Utilities and Services								
1. Public Health:								
-	750	1,013	1,053	948	873	822	365	5,824
2. Education:								
-	370	500	400	350	250	150	50	2,070
3. Electricity for Provinces:								
-	160	270	400	250	200	150	70	1,500
4. Hydroelectric and Steam Turbines:								
-	13	173	400	160	120	80	32	978

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Second Half of 1334	Year 1335	Year 1336	Year 1337	Year 1338	Year 1339	Year 1340	Year 1341	Total
In Millions Rials								
5. Utilities and Services in Provinces:								
-	470	1,010	900	800	660	400	150	4,390
6. Statistics and Census:								
-	-	100	100	-	-	-	-	200
7. Aid to Cooperatives and Producing Companies:								
-	80	100	80	60	50	30	-	400
8. Aid to Social Insurance Organization for Workers:								
-	70	90	50	15	-	-	-	225
Total:								
-	1,913	3,256	3,383	2,583	2,153	1,632	667	15,587

Article 4.

The Plan Organization is required:

1. To prepare detailed programs relating to the execution of operations subject of the items specified under Part A of Article 2 together with estimates on expenditures, within one year from the date of the passage of this law, and to propose them for the approval of the Joint Plan Committee of both Houses.

2. To determine with the approval of the Government and [illegible] to [illegible] then the kind of operations [illegible] in any of the lines specified under Part B of Article [illegible] detailed programs, including cost estimates and [illegible] their execution, for the approval of the Joint [illegible]

Article 5.

[illegible]

2. If appropriations allocated for each paragraph of any Chapter are not adequate or exceed the requirements, the Plan may increase or reduce the appropriation for that paragraph by ten per cent provided this action does not change the total amount of appropriation for that Chapter.

3. If appropriations for any one Chapter are not adequate or exceed the requirements, the Plan may increase or reduce the allocation of that Chapter by ten per cent with the approval of Joint Plan Committee of both Houses, provided this action does not alter the total appropriations for all the Chapters.

4. In case necessary conditions prevail and execution is feasible, the Plan may increase up to 20 per cent the total appropriation for each one of the Chapters with the approval of the Joint Plan Committee of Both Houses, so that the grand total of the Plan appropriations is increased by the additional allocation.

Article 6.

Economies which may be made after the execution of some of the programs in the allocations foreseen may be utilized by the Plan Organization at its own discretion, for the Chapter concerned and for other Chapters with the approval of the Joint Plan Committee of both Houses.

Regarding operations requiring study: if after such studies are made, it is found that certain factors are unfavorable, the Plan Organization must report the case to the Joint Plan Committee of both Houses and allocate the credits assigned for those operations to other operations in the same Chapter.

If for reasons beyond the power of the Plan Organization, the utilization of the plan funds are not possible in accordance with the yearly allocations provided for, the Plan Organization must report the case at the end of the year to the Committee. In this case unexpended allotments of that year shall be transferred for the execution of the same operation to the following year or years upon the proposal of the Plan Organization and with the approval of the Joint Plan Committee of both Houses.

Article 7.

The Plan Organization shall endeavor to distribute development operations insofar as feasible among various provinces and sub-provinces (ostans and shahrestans) of the country with due regard for local circumstances and their normal potentialities.

Article 8.

Credit for development operations expenditures will be derived from the oil revenues. The total of funds collected by the Ministry of Finance as income tax in accordance with the Oil Agreement of 7 Aban 1333 (October 29, 1954)

and the income received by the NIOC from trading companies as stated payment (12.5 per cent of the posted price) will be divided among the Ministry of Finance, the NIOC and the Plan Organization as follows:

For the years 1334, 1335 and 1336:

a) The NIOC will place at the disposal of the Ministry of Finance any surplus remaining from the stated payment after having covered the authorized expenditures foreseen in that Company's charter.

b) The Ministry of Finance will utilize the surplus in question plus 10 per cent of the total oil income (including income tax and stated payment) for covering the expenditures for the maintenance and management of available Government non-profit establishments such as roads, health and educational establishments and the like, as well as for establishments of that kind which will be created and turned over to the Government for management as result of the execution of programs.

c) The Balance of the total oil income (including income tax and stated payment) shall be paid to the Plan Organization for Plan operations.

In the ensuing years util the end of the term of the Plan:

a) 80 per cent of the total oil income (including income tax and stated payment) shall be paid to the Plan Organization.

b) From the remaining 20 per cent, after having covered the authorized expenditures foreseen in the NIOC charter, the surplus will be placed at the disposal of the Ministry of Finance for the expenditures for the maintenance and management of non-profit establishments.

Note 1: The allocation of a part of the total oil income for the maintenance and management of the Government non-profit establishments depends upon confirmation by a Commission consisting of the Minister of Finance, one of the other Ministers appointed by the Government, and the Managing Director of the Plan Organization, that the [illegible] of a part of the oil income for that purpose is [illegible]

[illegible] after having examined the [illegible]

the difference between the amount determined by the Commission and that maximum amount shall be added to the Plan Organization's share.

If from the year 1337 (Persian year beginning March 21, 1958) onward the said Commission should confirm that the balance of total income of oil after deducting the share of the NIOC and the 80 per cent share of the Plan Organization is not adequate to cover the expenditures for the maintenance and management of the non-profit establishments, it can deduct up to a maximum of 5 per cent of the total oil income from the 80 per cent share of the Plan Organization to be allocated for that purpose.

Note 2: In case that the total revenue from oil should exceed $144 Million in the year 1335 (March 1956-March 1957) and $188 Million in each one of the years 1336 and 1337 (March 1957 - March 1959) the surplus shall be placed at the disposal of the Ministry of Finance, in addition to the share allocated in this law to the Ministry of Finance, in order to cover essential needs of the Government.

The Government is duty bound to adopt measures in order that from the year 1338 (1959) the general budget deficit of the country shall not exceed the amounts allocated from the oil income for expenditures for the maintenance and management of the non-profit establishments so that with the payment of these amounts the general budget of the country should balance and not show any deficit.

Note 3: In order that the Plan operations may not be curtailed the Government is authorized to make up the shortage of the Organization's requirements during the years 1334, 1335 and 1336 up to an amount of $240 million by raising loans from domestic and foreign institutions. It is further authorized to make use of such credits as the need arises with the approval of the Joint Plan Committee of both Houses. The credits thus used shall be amortized from the revenues specified in Article 8 or from other revenues accruing to the Plan Organization.

Article 9.

The Plan Organization has corporate personality and fiscal independence. Its functions are:

1. To prepare working programs and submit them through the Government to the Joint Plan Committee of both Houses for approval.

2. To prepare maps, formulate projects and draw up cost estimates with due regard to the provisions of Article 10.

3. To turn over affairs to executive agencies according to the provisions of Article 10.

The Plan Organization must pay particular attention to the question of facilitating the investment of private capital in productive enterprises and make also adequate efforts for sfeguarding and strengthening small urban and rural handicraft industries.

4. To centralize funds allocated for the execution of programs and to pay executive expenditures thereof.

5. To supervise the executive operations of programs from technical and financial standpoints and see to it that coordination and collaboration exist between executive agencies.

6. To draw up a quarterly report of operations for submission to the Government and the Joint Plan Committee of both Houses, and to make it public knowledge.

7. To compile a full report of the yearly operations, as well as a statement of account of receipts and expenditures, explaining increases in production and national revenue which have resulted from the execution of programs (insofar as the determination of such figures is feasible) and obstacles which have existed in the way of the realization of the Plan; to submit this report to the Government and the Joint Plan Committee of both Houses not later than Khordad 31 (June 22) of the following year; and to publish it for public knowledge after the statement of account of recipts and expenditures has been approved by the Government. The Control Board shall examine the account of receipts and expenditures and, if found without objection, shall submit the same to the Council of Ministers for approval.

Note: The statement of account of receipt and expenditure of the Plan Organization shall be audited by the Government. The approval of the Government report by the Joint Plan Committee of both Houses shall be considered as a quit claim for the operational period. The Joint Plan Committee shall examine the report within 15 days at most and give its views.

Article 10.

The operations of the Plan are divided into four classes from the viewpoint of the method of execution:

A. Operations which fall within the current routine affairs of the Ministries and Government agencies such as Public Health, professional and technical training, plant pest control, animal husbandry and the like. With respect to such operations the following procedure will be observed:

1. The program of operations to be prepared with the cooperation of the Plan Organization and the Government agency interested.

2. The project and plan of execution will be prepared by the Government agencies with the cooperation and concurrence of the

Plan Organization.

3. The execution of operation will be made by Government agencies under the control of the Plan Organization.

B. Operations for the execution of which there exist agencies within the Government organizations or public institutions but the projects and plan of execution scheme of which must be prepared by consulting engineers chosen by the Plan Organization such as construction of roads, railways, ports and the like. With respect to such operations the following procedure shall be observed:

1. The program of operations will be prepared with the cooperation of the Plan Organization and Government agencies or public institutions.

2. The project and plan of execution will be formulated by consulting engineers selected by the Plan Organization, by contacting interested Government agencies or public institutions and by obtaining their concurrence for the approval of the Plan Organization.

3. The selection of manufacturers and contractors shall be recommended by the consulting engineers and, after the recommendation has been approved by the Plan Organization, the contract for the execution of work shall be prepared with the concurrence of the Plan Organization to be signed by the interested Government agency or public institution.

4. The execution of operations will be controlled by consulting engineers as representative of the Plan Organization.

In the case that Government agencies are not equipped for the formulation of project and the operations plan concerned they will be charged with the concurrence of the Plan Organization with the formulation of project and plans for that part of operations for which they are equipped and will carry them out under the control of the Plan Organization.

If any difference arises in the above cases between the Plan Organization and the interested Government agencies, the settlement of the difference shall be settled by the Council of Ministers at its own discretion.

C. Operations for the execution of which there exists no machinery within the Government agencies and the formulation of their [illegible] scheme, as determined by the Plan [illegible] [illegible] such as [illegible] plants, [illegible] procedure [illegible]

1. The program of operations [illegible]

2. Project and plan of execution [illegible]

selected by the Plan Organization for the approval of the Plan Organization.

3. Recommendations as to the selection of manufacturers and contractors will be made by consulting engineers. Contracts for the execution of operation will be concluded by the Plan Organization. The consulting engineers will control the execution of operations as representatives of the Plan Organization. For the management of this kind of establishments a proper agency or agencies will be created in accordance with the provisions of Article 19 and if such agencies have already been existing before the creation of the said establishments, they will contribute to the formulation of project and executive scheme according to the provisions of paragraph 2 of this article.

D. Operations which as determined by the Plan Organization can be executed by individuals and private institutions.

In such cases the Plan Organization shall facilitate the encouragement and investment of private capital by formulating projects, giving directives, technical aid, participation, granting credit or procuring credit from internal and foreign sources (with or without guarantee of the Plan Organization).

For the exercise of the above-mentioned functions, the Plan Organization is authorized to establish a bank or an agency similar to it fully financed by the Plan Organization itself. The Plan Organization will have the statute of such a bank or agency approved by the Council of Ministers.

Note 1: In the event that any difference arises between the execution organs and contractors and suppliers, whatever action undertaken for the settlement of the dispute or for its reference to competent courts must be taken with the consent and advice of the Plan Organization.

Note 2: The payment of the Plan operation expenditures shall be effected in accordance with regulations to be proposed by the Managing Director of the Plan Organization and approved by the High Council and the Control Board.

Article 11.

[illegible] consists of the [illegible]

the proposal of the Council of Ministers and by virtue of an Imperial decree. He may be reassigned to the same capacity after the expiration of that period. In the case of his death, resignation or incompetency, his successor shall be appointed in the same manner.

The Managing Director is paid for his services and is not entitled to hold any paid Government, social or private jobs. Also he has no right to have shares and be partner directly or indirectly in any institution or firm doing business with the Plan Organization.

The Managing Director presides over the departments subordinate to the Plan Organization and is vested with the following functions:

1. To prepare the administrative budget and set up the organization of the Plan Organization and its modification with the approval of the High Council; engagement, dismissal, appointment, promotion or demotion of employee shall be effected in accordance with the provisions of employment regulations.

2. To sign documents and negotiable instruments and correspondence and to conclude contracts.

3. To perform duties with which the Plan is charged such as the formulation of executive plans, concentration of the Plan funds and disbursement of expenditures connected with executive operations and assist private institutions.

4. Todraw up by-laws and executive regulations; regulations on technical and fiscal controls over the execution of programs.

5. To compile quarterly reports on operations and full reports of the yearly operations with statement of account on receipts and expenditures in accordance with the provisions of Article 9.

6. To represent the Plan Organization before the Council of Ministers, Ministries and the Joint Plan Committee of both Houses and Courts (reserving the right of appointing a third person) and private persons and private institutions. On the whole the Managing Director is responsible for the good performance of the functions with which the Plan Organization is charged, hence he is responsible before the Council of Ministers. The Managing Director can confer upon any one of his Iranian assistants, advisers or heads of departments that part of his administrative, technical and fiscal powers which he deems necessary.

b. <u>The High Council</u>:

The High Council shall consist of 7 members who shall be appointed from among honest, experienced and expert persons for the full term of the Plan, upon the proposal of the Government and by virtue of an Imperial decree. In

case of death, resignation or incompetency of any one of the members of the High Council, his successor shall be appointed in the same manner.

The members of the High Council are paid for their services and are not entitled to have shares or to be partners either directly or indirectly in any cooperation, institution or firm doing business with the Plan Organization, and also they have no right to hold any paid government, social or private jobs. They are not entitled to become members of the board of directors of any of the Government Companies unless assigned by the Plan Organization and as such without pay.

The meeting of the High Council will become formal when attended by at least five members and matters debated will become valid if voted by four members.

The High Council is entrusted with the approval of plans, projects, cost estimates and executive regulations of the programs within working programs approved by the Joint Plan Committee of both Houses. The Council is also charged with the approval of regulations by laws, and contracts and as a general rule with supervising the proper performance of all functions encumbent upon the Plan Organization.

c. <u>Control Board:</u>

The Control Board shall consist of 6 members of whom three shall be appointed for two years by the Senate from among a list of 9 individuals, and the other three, by the Majlis from among another list of 9 individuals proposed by the Government in the same manner as is provided for by law for the election of advisers to the Audit Court.

In the case of death, resignation or incompetency of any of the members of the Control Board, his successor shall be appointed in the same manner from a list of 3 persons proposed by the Government to both Houses.

The members of the Control Board are paid for their services and are not entitled to have shares or to be partners directly or indirectly in any corporation, institution or firm doing business with the Plan Organization and also they have no right to hold paid government or private jobs, and are not entitled to become members of the board of directors of any of the Government companies unless assigned by the Plan Organization and as such without pay.

The meetings of the Control Board will become formal when attended by at least four members of the Board. With respect to matters debated the vote of the majority of the members present will be final.

The functions of the Control Board are:

1. To control the expenditures of the Plan Organization as to their compliance with the provisions of the law, projects and cost estimates and rulings of the Joint Plan Committee of both Houses and the High

Council and the regulations of the Plan Organization.

2. To express its views with respect to by-laws and regulations needing approval from the viewpoint of their compliance with laws and regulations. The Managing Director will bring to the attention of the Control Board any case that requires being commented on in order that the Board my express its views within one week and if necessary within a further extension of a week. Failure of the Board to give its views within that time constitutes approof of its approval. In such a case the Managing Director of the Plan Organization is required to report the matter to the Joint Plan Committee of both Houses.

3. The Control Board has the right to keep direct contact with the Government and the Joint Plan Committee of both Houses and is bound to investigate cases referred to it by the Government and report directly the result of its findings.

4. Whenever the Control Board finds out that a decision contravenes the regulations and rulings, it is bound to inform the Managing Director of its findings. Should the Managing Director fail to take action on such a finding, it shall report the case to the Government and the Joint Plan Committee of both Houses. The Board shall also report to the Managing Director cases of violations or irregularities, supported by proofs, in order that the prosecution of the case be ordained by the Managing Director.

Article 12.

The Government is responsible for the Plan Organization before both Houses of Parliament.

Article 13.

With a view to attaining the maximum speed in work and economy in expenditure and achieving the best result, the execution of programs shall be subject, from financial, accounting and transaction viewpoints, to special by-laws and regulations, which shall be put into force after obtaining consultative advice from the Board of Control and the concurrence of the High Council and the approval of the Council of Ministers and the Joint Plan Committee of both Houses.

Article 14.

Executive Agencies, Departments, Government Institutions and companies are required to fulfill the duties devolving on them in carrying out the programs in accordance with conditions and directives given by the Plan Organization.

In the case of failure to comply with the conditions set forth or delay and procrastination in the work, the Plan Organization shall report to the

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Council of Ministers, who upon receipt of such a report from the Plan Organization, is in duty bound to take necessary measures within 15 days and in such a manner as to remove the cause of objection and complaint.

Ministries and Government agencies are required to place at the disposal of the Plan Organization all records, vouchers and books relating to the execution of programs and afford facilities for the Plan Organization to make a careful examination of them in every respect.

Article 15.

Factories, machines, spare parts and accessories imported from abroad for the execution of programs are exempt from the payment of Customs duties and Road and Municipal taxes.

The Plan Organization is authorized to import from abroad the requirements needed for the execution of programs without due regard to the import quota list and the classification of goods.

Article 16.

If it becomes necessary to appropriate lands (cultivated or barren), buildings and installations, in order to carry out development programs and meet public requirements, the following procedure shall be observed:

A. Any development operations to be carried out and any public requirements to be met (except in cases already determined by law or cases which will be determined by law) and the limits of lands to be appropriated as well as their price shall be determined by a commission consisting of the Attorney General, Minister of Interior, Director General of the Registration Department or their representatives on the basis of views expressed by technical experts. The decision reached by this commission shall be final.

Technical experts will consist of three persons of which one will be appointed by [redacted] the second person by the owner of the land, building and installations and the third person will be elected by joint judgment of the two former experts. In the case that the two first experts cannot come to terms as to the selection of the third expert the latter will be appointed by the vote of the attorney general.

B. The price of lands, buildings, installations, either belonging to the Government or to private owners, to be appropriated, shall be assessed as follows:

1. The basis for price assessment shall be the equitable price of similar lands, buildings and installations, situated in the area of operation, which prevailed in the year before the commencement of operations was announced and without taking into account the

purpose of appropriation and the effect that development operations would have upon prices.

2. In the case of appropriating lands, buildings and installations, not belonging to the Government, an additional amount of 5% of the equitable price shall be paid to owners of such properties. If owners live on the spot, in addition to the 5% in question a further 10% shall be added to the equitable price, and if such properties constitute the sole source of subsistence of their owners, an additional 10% of the equitable price shall also be paid for this reason.

Note: In the case of cultivated properties, in addition to the price of the property paid to its owner, 15% of the price shall be distributed per head as trans-immigration right, by the Local Council.

3. In the case the date of appropriation differs more than one year from the date when the intention to appropriate a property has been announced, 5% shall be added to the equitable price for each year, provided that the aggregate payment does not exceed the equitable price of the day. Intervals less than 6 full months shall not be taken into account and intervals of full 6 months or over shall be calculated as one year.

The date of appropriation, however, shall not exceed three years from the date that the purchase of the property has been announced.

C. To take possession of lands, buildings and installations before making full payment is not authorized unless agreed to by the seller. Regarding the properties of pious donations sale of which is not authorized, such properties shall be leased under long term contracts.

D. If the owner does not agree with the transfer and cession of the property, the Public Prosecutor of that locality shall sign, as owner's representative, the transfer deed of the property in view, after having deposited the full price of the property with the Cashier of the Registration Department. Thereafter he shall take measures to bring about definite evacuation of the property by its owner, within 3 months.

E. Regulations governing the execution of this article shall be proposed by the Council of Ministers and approved by the Joint Plan Committee of both Houses.

Article 17.

Unearned increment accruing to private properties as a result of development operations carried out in that operational area by the government directly or by the Plan Organization and/or municipalities, without exertion of any effort or activity on the part of their owners, shall be subject to the following regulations:

A. Unearned increment is the difference between the value of the property in the year prior to commencement of operations and the value immediately after termination of operations.

B. If the difference is 20% or less, the owner of property shall be exempt from the payment of dues relating to the unearned increment and for any excess thereof, half shall belong to the Government or the local municipality as established by the Government.

C. The unearned increment shall apply to lands, cultivated or barren, grasslands and forests. Buildings and cultivated lands (cultivated up to the date of the approval of this Law for as long as they are cultivated and gardens for as long as their owners benefit from their products) are exempt from the payment of the unearned increment. If cultivated lands and gardens shall make use of more water through the operations of the Plan Organization they shall pay appropriate water charges.

D. In order to determine the radius of the area subject to payment of dues relating to unearned increment and to establish such increment, a commission shall be formed consisting of the Public Prosecutor of the locality concerned, the Director of the Registration Office, the Director of Agriculture, and one representative of the owner or owners whose property becomes subject to unearned increment and in the case that owner or owners fail to appoint such a representative, a locally trusted resident and the representative of the agency having carried out development operations. Decisions reached by this Commission shall be final.

E. The owner can pay the dues relating to the unearned increment within a period of 5 years at equal yearly instalments or cede some of his lands equivalent in value to the increased increment. If the owner refuses to pay all or part of instalments or cede lands, the Public Prosecutor of the county, acting on the Commission's findings, shall sign the deed transferring to the Government or the Municipality any amount of land equivalent to the charges due the Government or the Municipality on account of unearned increment.

F. The performance of operations of public utilities such as pipelines for water supply, electricity, educational affairs, health and the like shall constitute no ground for claims of unearned increment (charges) from properties situated in the operational area. The establishment of industrial power installations will constitute ground for claim of payment of unearned increment.

G. Public donations are exempt from the payment of unearned increment but inalienable donations to descendants shall be subject to the payment of charges for unearned increment in instalments of not less than 5 and more than 7 years.

H. Regulations governing the method of the execution of this article shall be proposed by the Council of Ministers and the Approval of the Joint Plan Committee of both Houses.

Article 18.

Establishments created as a result of the execution of development programs shall immediately, after coming into existence, be turned over to Government agencies charged with their exploitation or management except those which require a test period for exploitation. The agencies in question shall proceed with the taking delivery of the said establishments as soon as they are notified by the Plan Organization to this effect.

Note: On the whole establishments created from the Plan appropriations shall be turned over to the Government agencies in such a state as to be ready in every respect for exploitation and management so that the managing agency shall not have to incur any expenses for procuring materils and equipment when commencing operations.

Article 19.

For the management of profit-making and productive establishments belonging to the Government or which may come into existence as result of the execution of development operations a suitable agency will be set up upon the proposal of the Plan Organization and the approval of the Council of Ministers to be administered on commercial accounting principles.

Upon the proposal of the Plan Organization, the Government is authorized to sell to private individuals or Iranian companies under conditions preventing oppression to consumers, all or part of the shares of profit-making and productive establishments, already available, or similar establishments which may come into existence in future as result of the execution of development programs, and which are either complete or in process of creation. Funds accrued from the sale of the said establishments shall be paid to the Plan Organization for the execution of development operations.

Note: The Plan Organization is required to submit to the Joint Plan Committee of both Houses for information a statement of the yearly expenditures of its subordinate profit-making and productive institutions and companies after examination by the Control Board.

Article 20.

The administrative budget of the Plan Organization including the number of the Plan employees, the maximum salaries of positions, and the total amount of the budget shall be drawn up with the concurrence of the Council of Ministers and the approval of the Joint Plan Committee of both Houses. The employment affairs of the Plan Organization are subject to

special regulations which will be drawn up with the concurrence of the Council of Ministers and shall be approved by the Joint Plan Committee of both Houses.

The Plan Organization is authorized to employ foreign experts for a period not exceeding one year after the expiration of the term of the execution of the Plan. The engagement of such experts shall be with the approval of the Council of Ministers and the Joint Plan Committee of both Houses and within the number and list of positions having had prior approval of the Joint Plan Committee of both Houses.

Article 21.

The Plan Organization shall audit and liquidate the account of liabilities and assets of the former operational term. If there should be a credit balance the same shall be utilized for the execution of the Plan and if a debit balance, the same shall be covered from savings in the execution of programs and from the oil revenue.

OUTGOING TELEGRAM

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1956 MAY 9 PM 5 55

DC/T

SENT TO: Amembassy TEHRAN 2021

888.00-Seven year/4-1856

Origin

Info:

Your Despatch 887 April 18.

Plan Org Law Article 10 provides [redacted] Ministries will carry out under control of Plan Org those Plan operations that fall within their current routine affairs. Are expenditures for such operations budgeted in Ministries' budgets - possibly on reimbursable basis out of Plan funds - or are they included only in Plan Org budget?

Do Plan Org expenditures in TOICA A-1535 duplicate in any way expenditures appearing in Government budget?

What is annual breakdown of 70 billion rial Plan Org expenditure program?

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MG

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Drafted by: Treasury:VWMitchell
OFD:ED:LMDunn:ds, 5/9/56

Telegraphic transmission and classification approved by: OFD - Merrill C. Gay MG

Clearances: GTI - Mr. Smith

S/S-CR
MAY 9 1956 P.M.

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FOREIGN SERVICE DESPATCH

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888.00-SEVEN YEAR/5-2656

FROM : AmEmbassy, TEHRAN   996
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.   May 26, 1956
DATE

REF : Deptel 2021, May 9, 1956; Despatch 887, April 18, 1956

For Dept. Use Only	ACTION	DEPT. / OTHER
67	NE-4 REC'D 6/1	INFO: RMR-2, OLI-6, E-4, P-1, ICA-10, IO-4, NEA-4 OTHER: COM-10, AG-8, IN-7, CIA-6, ARMY-4, NAVY-3, AIR-3

SUBJECT: Iran's Second Seven-Year Development Plan

The three questions asked in Deptel 2021 are discussed below in the order raised:

1. Plan Organization expenditures are budgeted only in the Plan Organization budget. Some funds are allotted to Ministries but are spent by the Ministries in accordance with Plan Organization regulations and are accounted for outside regular Ministry expenditures. Mr. PIRNIA, Treasurer General, has corroborated the above and also stated that projects programed by Ministries under their budgets do not duplicate Plan Organization projects.

2. Expenditures in TOICA A-1535 do <u>not</u> duplicate expenditures in the regular Government budget.

3. The Plan Organization program is divided as follows (millions of rials):

A.	Old Programs	- 17,200
B.	New Programs	- 49,300
C.	Programs not yet finished	- 3,500
	Total	- 70,000

A breakdown of Old Programs (A above) by years is not available but it is estimated that the major portion will be expended in 1335-38 (March 1956 to March 1959).

The New Programs (B above) are broken down into the following annual totals:

1334	1335	1336	1337	1338	1339	1340	1341	Total
900	6,500	12,280	11,129	7,934	5,128	3,821	1,608	49,300

(The above totals may be obtained by adding up the four chapter totals of Article 3 of the Enclosure to the reference despatch.)

A breakdown of programs not yet finished (C above) by years is not yet available.

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A breakdown follows of A and B by programs (as shown in Article 2 of the reference despatch):

		A	B
Agriculture and Irrigation	-	6,260	9,458
Communications	-	5,367	17,454
Industries and Mines	-	2,759	6,801
Public Utilities and Welfare	-	2,814	15,587
Total		17,200	49,300

A breakdown of C by programs follows:

Agriculture and Irrigation	-	2,500
Industry and Mines	-	1,000
Total	-	3,500

For the Ambassador:

R Bernard Crowl (rpa)

R. Bernard Crowl
First Secretary of Embassy

Note: This despatch was prepared with the cooperation and assistance of Mr. L. E. Potter, Assistant Director for Economic Services, USOM/I.

cc: Mr. L. E. Potter, USOM/I

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888.00 Seven Year/7-3056

FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY TEHRAN 73
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. July 30, 1956
DATE

OCR

REF : Despatch 887, April 18, 1956

888.00 Seven plan

For Dept. Use Only	ACTION NEA-4	DEPT. REP-2 R-n IR-2 OLI-6 E-5 ICA-10 AG-8 OSD
71	REC'D 8/3	OTHER CIA-6 USIA-10 TR-3 FRB-2 X B Army NA

SUBJECT: Revised Seven-Year Development Plan

14

AUG 6 - 1956

SUMMARY

The Plan Organization has revised the second Seven Year Development Plan and raised proposed total expenditures by 20%, i.e. from 70 billion to 84 billion rials. (from about $931 million to about $1,117 million). 1/ This revision has not yet been presented to the Joint Committee of Parliament, as is required by law.

The new plan has been criticized by Mr. Black of IBRD, who came to Iran recently, on the ground that during the seven-year period it rises to a peak and then tapers off. He recommended that the plan be re-phased so that it rises gradually to a plateau in accordance with prospective oil revenues.

A cash-flow analysis indicates that, under the new plan, the Organization's expenditures will outrun its revenues from 1956 to 1961 and that the Organization will face a cumulative maximum deficit of 17,090 million rials ($228 million) in 1959-60. Over the entire seven-year period, however, revenues will entirely cover expenditures.

The financing of such a deficit will prove very difficult. Private banks are not prepared to extend loans to the Organization. An IBRD official who accompanied Mr. Black believes that the Organization's needs will not exceed $60 million and it is expected that the Bank will grant a line of credit of this magnitude. The Bank, however, will require certain controls over the financial operations of the Organization as well as the Government. Such controls are badly needed since Iran's public finances are in a chaotic condition. As an international organization, the IBRD may be in a position to induce the adoption of more adequate [illegible] practices. In any case it appears clear that if the new seven-year plan is to be implemented more adequate controls over the Organization's finances and programs will have to be instituted.

[illegible]

1/ In accordance with the practice of the Plan Organization, the rate of exchange is calculated at [illegible] 75.00 in this despatch.

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INTRODUCTION

Less than four months after Parliament voted the second Seven-Year Development Plan into law, the Plan Organization has raised the approved appropriations for each of the Plan's four chapters by 20%, thereby increasing total expenditures from 70 to 84 billion rials (from about $931 million to about $1,117 million), and has entirely revised the yearly allocations for all programs. The legal authority for this action stems from Article 5 of the Law which authorizes the Organization to increase "up to 20 per cent the total appropriations for each one of the Chapters with the approval of the Joint Plan Committee of both Houses, in case necessary conditions prevail and execution is feasible." The Organization decided to avail itself of this clause because it considered that earlier estimates of expenditures required to carry out the projected programs were too low and furthermore that increased expenditures would be feasible because of increased oil revenues.

The figures of the new plan, like the old, are in large measure "pure guesswork", in the words of informed foreign advisers at the Organization, and the formulation of this new plan points up all too clearly the chaotic conditions under which the Organization operates and plans and programs are formulated. This aspect of its action has not been lost on the Organization which has given no publicity to the new plan and, despite the Law's requirement, has so far withheld it from Parliamentary approval and questioning.

THE NEW PLAN

There follows a Summary Table indicating the new proposed total allocations for each Chapter and a comparison between these and the previously approved totals.

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SEVEN YEAR PROGRAM OF DEVELOPMENT

EXPENDITURES

Summary Table
(In Millions of Rials and Thousands of Dollars)

Chapter		Total (Seven Years)	Credit Appropriation: Previous, Urgent and A Program	Credit Appropriation: Including B Program and Adding 20 P.C.
I	Agriculture and Irrigation	19635 ($261800)	15710 ($209466)	21852 ($291360)
II	Communication	30136 ($401813)	22830 ($304400)	27396 ($365280)
III	Industries and Mines	11388 ($151836)	9560 ($127466)	12672 ($168960)
IV	Social Development	19810 ($264130)	18400 ($245333)	22080 ($294400)
Grand Total		80969 ($1079579)	66500 ($886666)	84000 ($1120000)

Even this simple table needs certain clarification. The figure of 66,500 million rials given as the previous total appropriation does not include the unallocated funds (amounting to 3,500 million rials) which are listed as category 3 in Despatch 887 and as "B Program" in the last column of the table. Evidently these 3,500 million rials are also not included in the table's Grand Total of Expenditures (shown as 80,969 million rials). In view of the relative meaninglessness of the more refined statements of allocations by year and by program, the Embassy is not forwarding more detailed figures.

The new plan was submitted for comment to Mr. Eugene BLACK, President of IBRD, when he visited Tehran in June. The Embassy concurs in the criticisms which he is reported to have made. The burden of his criticism revolved around the point that the Organization has evidently chosen seven years as an absolute period of time during which to complete the Plan's programs. In other words, an entirely new plan will have to be devised at the end of this period with no apparent consideration being given at present to the necessity of following through from one plan to the next. Common sense denies the argument that the Plan Organization has only authority for seven years and therefore cannot undertake planning beyond that time. It is certain, on the one hand, that many of the programs will have to be completed by further programs to become useful, and, on the other hand, that Iran may reasonably expect to continue to receive sizeable revenues from its oil production. The notion of achieving a complete plan within seven years in essence makes for a "crash plan" and conditions many of the other considerations regarding its implementation.

First of all, as the following table indicates, the new plan will impose serious strains on the economy by forcing very high rates of increase and decrease of expenditures.

1334 (6 months)	1338	1341 (6 months)
2,864 million rials ($38 million)	15,369 million rials ($205 million)	2,740 million rials ($36 million)

Mr. Black recommended that the entire plan be "rephased," so that expenditures would rise gradually in harmony with rising oil revenues. We are told that Ebtehaj has recognized the strength of Mr. Black's recommendation, but nevertheless insists, in spite of advice to the contrary, that all programs have equal priority and must be carried out in toto. Nevertheless, he has asked his staff to study the matter.

In view of the looseness of the entire plan, it is difficult to comment meaningfully regarding its details. However, one general point with regard to the policy of industrialization, which has already been noted in Despatch 887, might be reiterated.

Under Chapter 3, Industries and Mines, the plan proposes expenditures for the purchase and erection of a number of textile, sugar and cement mills. Ebtehaj has voiced the opinion that demand in Iran would easily absorb an expanded production in these basic Iranian industries and that therefore the Organization could not go wrong by building more mills. Nevertheless, a prime difficulty confronting Iranian industry at present is the almost total lack of competent managerial and technical personnel. Psychologically also, Iranians are not yet prepared for the routine work, the steady attention to detail, and the continuing level of performance which industrial

work requires. Rapid industrialization will further strain the tight labor market.

The alternative is to bring in foreign managers and technicians, whether as employees under management contracts or as part of the contribution of foreign firms in joint enterprises. This alternative is being increasingly recognized as the only practical solution. Ebtehaj has already granted complete authority to the George Fry firm of management consultants to rehabilitate and place on an efficient footing the Organization's two main textile mills (at Shahi and Beshahr) and is now negotiating with this group to take over other companies belonging to the Organization.

Such a decision, of course, raises once more the question of the extent to which public opinion will accept foreigners in executive positions in Iran. Nevertheless, it appears that this risk must be taken to achieve a more rapid rate of industrialization.

FINANCING THE PLAN

A subsequent despatch will analyze the estimates of oil revenues on which the new plan is predicated - when the Consortium has had an opportunity to study this matter. On the basis of these estimates and simply adding up the proposed expenditures to be undertaken under the different programs, the Organization's Belgian economist, Dr. Francois CRACCO, has drawn up a cash-flow analysis which indicates that the Organization's expenditures will outrun its revenues from 1335 to 1339 (1956-61) and that the Organization will be faced by a cumulative maximum deficit of 17,090 million rials ($228 million) in 1338 (1959-60). This amount is within the maximum loan authorization of $240 million granted by the Law to enable the Organization to meet its expected deficit and, according to the projections made by Dr. Cracco, the Organization's revenues will entirely cover the total expenditures over the seven-year period.

If expenditures materialize as presently estimated, the financing of a deficit of the indicated magnitude will prove a major problem. Private banks such as Chase Manhattan have indicated that they are not prepared to extend loans to the Organization. This revelation of lack of confidence gave Ebtehaj a serious jolt and was probably one of the factors which induced him to invite Mr. Black to visit Tehran. As reported in Despatch 1098 of June 28, 1956 (Item No. 10), an IBRD official who accompanied Black believes that the Organization's needs will not exceed $60 million and it is expected that a line of credit of some such order will be extended. Such a credit, however, would be tied to certain conditions which would give the Bank substantial control over the Organization's financial operations as well as the Government's.

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Page ____ of
Encl. No. ____
Desp. No. ____
From ____

Such control is badly needed to cope with the financial chaos which prevails. Dr. Cracco has found that it is not possible to obtain figures showing the current rate and pattern of expenditures or outstanding commitments. Organization funds are granted to Ministries and other agencies of the Government as advances to cover their approved programs. Presumably, the Ministries and agencies render some sort of accounting of their expenditures. Funds are also disbursed to meet obligations which the Organization itself incurs, but there is no effective attempt to achieve an adequate accounting of all these disbursements. What is more surprising, Ebtehaj himself, who is a banker by training, does not seem to grasp the necessity of controlling his Organization's finances.

Under these circumstances, it is illusory indeed to speak of a "Plan" which defines with precision the work to be accomplished over seven years.

Without a clear idea of its financial position but assuming that it will face a serious deficit in the near future, the Organization proposes to place projects on a credit basis whenever possible but no mechanism has been set up to control this credit and allocate funds. In this connection, a number of informants have remarked that a certain paralysis has descended upon the Organization since it became known that a foreign management firm would be retained to attempt to bring order out of this chaos.

As an international organization, the IBRD is in a relatively favorable position to induce the Plan Organization as well as the Government itself to adopt more adequate financial practices. If the Bank could establish a measure of control, it might not only have a salutary influence on financial practices but might also inspire greater confidence of Iranians in their own Government. Furthermore, if the Bank's loans prove to be sound, foreign commercial banks might be encouraged to follow suit.

However it may be done, the Plan Organization will have to establish more adequate controls over its finances and programs if the new seven-year plan is to be implemented in the proposed order of magnitude.

For the Ambassador

Christian Chapman
Christian Chapman
Second Secretary of Embassy

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NO.: A-59 August 31, 1956

SUBJECT: Seven Year Plan

TO: AmEmbassy TEHRAN

The Department and other U.S. agencies have found the Embassy's despatch 73 of July 30, 1956, on the revised seven-year development plan to be an interesting and useful despatch on a topic in which Washington agencies have a considerable and growing interest.

The Department realizes that the Embassy has considerable reservations about the accuracy and validity of the figures cited on development expenditures over the course of the seven-year program. Many of these doubts are shared also in Washington. At the same time there is considerable interest in obtaining all possible details on the seven-year development plan in view of the fact that the proposed investment will so greatly stimulate competition for scarce resources of skilled labor and materials in Iran.

The Department would therefore appreciate the Embassy's continuing to report any significant developments in the implementation of the program, including foreign loans and credits which may be sought or become available. Of particular interest would be information in as great detail as possible concerning the cash flow analysis mentioned by the Embassy in despatch 73. The Department also requests that the Embassy forward the more detailed figures which underlay the summary expenditure table on page 3 of the referenced despatch. The Embassy's proposed despatch analyzing the estimates of oil revenues on which the new plan is predicated is awaited with interest as a timely review of the revenue basis for the projected expenditure program.

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DRAFTED BY: NEA:GTI:HLSmith

APPROVED BY: M.W.Williams

CLEARANCES:

Treas. - V. Mitchell (In draft)
Comm. - R. Sethian (In substance)

REP - H. Mitchell
(In substance)

D-3056

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, TEHRAN — DESP. NO. 259

TO : THE DEPARTMENT OF STATE, WASHINGTON. — DATE: OCTOBER 2, 1956

REF :

For Dept. Use Only	ACTION	DEPT.	
71	NEA-4	INFO	REP-2 AN/R-2 OLI-6 E-4 ICA-10
	REC'D 10/9	OTHER	LAB-4 COM-10 IN-7 AG-8 TAR-2 TRE-3 FRB-2 CIA-72

SUBJECT: Plan Organization's Companies

Mr. Ruhollah ASBAGHI, Director of the Plan Organization's Division of Companies, made the following comments regarding these companies to an officer of the Embassy.

It remains the firm policy of the Plan Organization to sell the industrial and mining enterprises it owns (Enclosure I) to private interests. However, the Plan has also decided that these enterprises would not be offered for sale until they have been thoroughly rehabilitated and reorganized and the problem of surplus labor has been solved. Surplus labor, amounting to an estimated 20 - 25% of the 17,000 labor force, (Enclosure II), is considered as the major difficulty in disposing of these enterprises. Prospective buyers require a clause enabling them to get rid of this surplus labor. This obviously creates new social and economic problems for the Government.

The other reason why the Plan does not want to turn over plants which are not in proper operating condition to private interests is that, unless the new owners obtain a profit within a few months, they can be expected to turn the plants back to the Plan and refuse to pay their obligations.

Another problem in disposing of these enterprises, which Mr. Asbaghi alluded to as an illustration of the Plan's difficulties, is that the Government considers these enterprises as in effect serving to regulate the private sector. Some time ago, for instance, the Plan had decided to sell its eight tea drying plants. Tea producers, however, who had been experiencing increasing difficulty in selling their green tea to the ninety-one privately owned tea drying plants, struck in protest. In accordance with a Persian custom, the producers sought bast in a telegraphic office in Gilan. Thereupon, not only did the Shah order that the plants not be [illegible] the Plan was further obliged to rent eighteen of the private plants [illegible] 100 million rials. (The producers' problem in selling their green tea results from the poor quality of their product and only to a lesser degree from the competition of imported tea.

The Embassy has compiled the enclosed list of plants and mines belonging [illegible]

[illegible]

DEPARTMENT OF STATE

OCT 10 1956

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to and operated by the Plan Organization from various sources. Mr. Asbaghi generally confirmed its accuracy. These enterprises are grouped according to categories (mining, textile, sugar, etc.) into semi-autonomous companies and bongahs. A few plants (i.e. canning and rice-cleaning) have been placed under various companies to simplify their administration. According to Mr. Asbaghi, the Plan has decided to sell its eight rice cleaning plants (four in the Cotton Company and four in the Tea Company) in the near future. These plants are small and do not offer problems of rehabilitation and surplus labor. The Plan has also decided to organize a new company to control the food industry. It would comprise the five canning factories being built with USOM/I assistance, the one at Shahi under the Chemical Company, and the fish canning factory at Bandar Abbas under the Mining Bongah.

COMMENT: The number and variety of the Plan's holdings, as listed in Enclosure I, indicate the relative importance of these holdings in the Iranian economy. Although Mr. Asbaghi's statements of the Plan's intents conform to previously announced policy, nevertheless Iranian capitalists are overwhelmingly suspicious of the Plan under the direction of A.H. EBTEHAJ. They consider that he has done nothing to encourage the private sector of the economy in spite of his promises. Certainly the Plan's record so far has tended to confirm this opinion.

Aside from Mr. Ebtehaj's authoritarian tendencies, another explanation of the Plan's failure to encourage private enterprise might possibly be found in the attitudes of the Plan's officers. It becomes clear when talking to a man like Asbaghi, who is generally considered to be competent, that he and other engineers in the Plan basically distrust free enterprise and rather tend to believe that they can operate the economy more efficiently themselves in accordance with general plans.

FOR THE AMBASSADOR:

Christian Chapman

Christian Chapman
Second Secretary of Embassy

Enclosures: As stated above

NAME OF COMPANY OR BONGAH	LOCATION OF FACTORIES OR MINES
Mining Bongah	Robat Karim - manganese
	Anarak
	Khaneh Sormeh, Isfahan - lead
	Nakhlack 'Anarak
	Khomein - lead
	Esfandaghe - chromite
	Abbas-abad - copper
	Zanjan - copper
	Semnan - iron
	Copper Refinery, Rey
	Laboratory , Tehran
	Hormoz & Gheshm - red oxide & salt
	Kerman coal
	Bandar Abbas fish canning
Sugar Company	Abkooh, Meshed
	Torbat Heidary
	Marv-Dasht, Shiraz
	Fassa
	Rezaiyeh
	Shah-abad
	Myandoab
	Shahzand
	Karaj
	Kahrizak
	Varamin
	Kerman
Chemical Company	Glycerin Factory (soap & glycerin) - Rey
	Aminabad (chemical & soda-ash) - Rey
	Varamin Oil Extraction
	Sheergah (wooden sleeper treatment plant)
	Tar Factory, Tehran
	Shahi Canning
Textile Company	Ahwaz Cotton Mill (Plan Org. owns 40%) (private 60%)
	Behshahr Cotton Mill
	Shahi Cotton Mill
	Shahi Jute Mill
	Zafar Knitting Mill, Tabriz
	Khorshid Yarn Mill, Kerman
	Tahitsazi Cotton Mill, Tehran.

NAME OF COMPANY OR BONGAH	LOCATION OF FACTORIES OR MINES
Coal Mines Company	Shimshak
	Gajereh
	Zirab
	Elika
	Galandrud
	Cheshmeh-gol
Cotton Company	Kermanshah - Gin
	Babolsar "
	Babol "
	Kia-Kola "
	Jooy-bar "
	Behshahr "
	Sari "
	Bandar Gaz "
	Ali-abad "
	Gonbad-Kavoos "
	Jeetoo-Varamin
	Garmsar "
	Isfahan "
	Kermanshah "
	Boroojerd "
	Guilan-gharb "
	Khorram-abad "
	Semnan "
	Shiraz "
	Sabzavar "
	Kerman "
	Azerbaijan "
	Kazeroon "
	Rice Cleaning Plants
	Bandar Gaz
	Gorgan
	Shahi
	Mahmood-abad
Silk & Cocoon Company	Silk Factory - Chaloos
	Silk Processing - Resht
	Cocoon Breeding Plants
	Gilan
	Khorrassan
	Mazandaran
	Natanz
	[illegible]

NAME OF COMPANY OR BONGAH	LOCATION OF FACTORIES OR MINES
Construction Materials Company	Fireclay - Amin-abad - Rey Cement Plant - Rey Cement Plant - Shiraz (33% owned by P.O.) Glass Plant - Tehran (50% owned by P.O.)
Mechanical Repair Company	No. 5 Factory - Vanak
Tea Company	Lahijan Komleh Bibalan Shoeb-Kalayeh Kelar-abad, Chalus Gala-Kardan Bakhsh-Yek-Gilan Bakhsh-do-Gilan Rice Cleaning Plants Pahlavi Shahsavar Landrud Rudsar.

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Page 1 of
Encl. No. 2
Desp. No. 259
From Amembassy, Tehran

NAME OF COMPANY OR BONGAH	Number of Staff Employees	Number of Laborers
Mining	374	3382
[illegible]	565	918
[illegible]	205	[illegible]
[illegible]	352	5374
[illegible]	[illegible]	[illegible]
[illegible]	603	[illegible]
[illegible]	[illegible]	[illegible]
[illegible] Materials	161	[illegible]
[illegible] Repair	80	[illegible]
[illegible]	344	[illegible]
[illegible]	31	[illegible]
[illegible] Bongah	113	
	34[illegible]	17[illegible]

[illegible]POUCH

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, TEHRAN

288

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

October [illegible]

REF Despatch 73, July 30, 1956

SUBJECT: Rephased Seven-Year Development Plan

In accordance with Mr. BLACK'S recommendations, as reported in Despatch [illegible] the Plan Organization has "rephased" the Development Plan. The tables showing [illegible] rephased plan, which are enclosed, were taken to Washington by Mr. EBTEHAJ for his [illegible] with the IBRD of a loan application to cover the expected deficit.

The estimated total cost of this new plan amounts to 81,198 million rials ([illegible] billion), this being total allocations for programs which have been [illegible], as compared with a total of 80,969 million rials ($1.09 billion) [illegible] in Despatch 73. The rephasing involves about half of this total, or 45,9[illegible] million rials ([illegible] million) and represents a shift of expenditures totalling 6,0[illegible] million rials ([illegible] million) from the first four years of the Plan (1334 - 1337) to the last three (1338 - 1341).

According to a high official of the Plan Organization who evidently supervised the work of rephasing the plan, this shift of expenditures will reduce the period of deficit to three years (1335 - 1337) instead of five years and the maximum [illegible] million rials ($170 million) in 1337 instead of [illegible] million rials ([illegible] million) in 1336. He emphasized that this was the [illegible] the deficit could be reduced since all [illegible] allocations [illegible]. He concluded that of this $170 million, $17 million would be covered by the advance already granted by the International Monetary Fund and the balance, it was hoped, by the loan from the IBRD.

The Department is reminded that all Plan Organization figures are subject to [illegible]. In this case, both totals and timing should be regarded as very rough approximations.

[illegible]

Re-Phased Plan

Chapter		34	35	36	37	38	39	40	41	TOTAL
I Agriculture and Irrigation	Original Program	690	2321	3099	3622	4043	3315	1951	813	19854
	Re-Phased Program	690	2271	3054	3547	3953	3420	2045	874	19854
	Amendments	0	-50	-45	-75	-90	+105	+94	+61	
II Communication	Original Program	1204	4495	5840	5848	5592	3971	2393	793	30136
	Re-Phased Program	1204	4255	5373	5143	4991	3972	3484	1714	30136
	Amendments	0	-240	-467	-705	-601	+1	+1091	+921	
III Industries and Mines	Original Program	475	1745	2155	2147	1991	1679	1031	165	11388
	Re-Phased Program	475	1716	2040	1886	1534	1979	1147	611	11388
	Amendments	0	-29	-115	-261	-457	+300	+116	+446	
IV Social Development	Original Program	464	2615	3132	3550	3676	3001	2406	966	[illegible]
	Re-Phased Program	464	2323	2511	2507	2682	3173	3823	1727	19810
	Amendments	0	-292	-621	-1043	-994	[illegible]	[illegible]	[illegible]	
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	

C H A P T E R I

Original Plan - 1st Line
Re-Phased Plan - 2nd Line

	35	36	37	38	39	40	41	Total
[illegible] Road Dam			5	10	10	10	3	38
					10	18	10	
[illegible] & Tale-[illegible] River Relo-[illegible]				5	10	9		24
					5	10	9	
[illegible] Irrigation [illegible]				5	10	10	3	28
					10	10	8	
[illegible]h Irrigation [illegible]				10	60	50	30	150
					60	60	30	
[illegible]rudsen Irrigation [illegible]			10	60	80	80	50	280
				40	100	80	60	
[illegible] Irrigation		10	20	20				50
					10	30	10	
[illegible]an Irrigation	20	10						30
					20	10		
[illegible] Irriga-tion [illegible]	10							10
					10			
[illegible]	[illegible]	5						[illegible]
						5	[illegible]	
[illegible] of [illegible]		[illegible]	40	20				[illegible]
					[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
				[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	

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C H A P T E R VI

Original Plan - 1st Line
Re-Phased Plan - 2nd Line

	35	36	37	38	39	40	41	[illegible]
Roads	1970	2665	3298	3303	2459	1810	[illegible]	[illegible]
	1662	[illegible]	[illegible]	[illegible]	2251	[illegible]	[illegible]	
Railways	1395	1736	1227	1101	495	467	—	[illegible]
	1150	1129	965	959	753	514	212	
Airports	445	474	378	130	77	54	11	1566
	362	370	308	181	125	120	[illegible]	
[illegible]	700	598	538	661	702	539	210	[illegible]
	604	588	488	546	562	292	[illegible]	
P.T.T.	200	395	345	385	156	91	[illegible]	1560
	220	305	345	335	166	91	[illegible]	
Cartography	75	82	62	72	72	100	[illegible]	514
	69	62	68	72	72	100	[illegible]	
TOTAL	4495	5840	5848	5592	3971	2593	[illegible]	28004
	4255	5373	5143	4991	3972	1484	[illegible]	
Amendments	-240	-467	-705	-601	+1	-1091	[illegible]	
		- 2013				[illegible]		

CHAPTER III

Original Plan - 1st Line
Re-Phased Plan - 2nd Line

	35	36	37	38	39	40	41	TOTAL
New Sugar Factories	10	40	200	350	500	400	100	1600
		40	80	180	500	400	400	1600
New Cement Plants	10	100	110	150	300	300	60	1030
		20	30	100	350	350	180	
Salt Mines in Hormuz [illegible]	4	20	30	26				80
			4	20	30	26	-	
Steel Plant		300	600	1000	800	300		3000
		300	600	800	1000	300	-	
Persian Gulf Fisheries	5	10	10	11				36
				5	10	10	11	
3 Cities for Industrial Workers		5	25	25	20			75
					30	30	15	
TOTAL	29	475	975	1562	1620	1000	160	5821
		360	714	1105	1920	1116	606	
Adjustments	-29	-115	-261	-457	+300	+116	+446	
		-862				+862		

CHAPTER IV

Original Plan - 1st Line
Re-Phased Plan - 2nd Line

	35	36	37	38	39	40	41	TOTAL
Health	238	438	308	935	722	338	106	3485
	157	272	398	631	746	912	369	
Education			99	130	132	120	30	511
					150	200	161	
Urban Development	311	599	834	790	800	760	383	4477
	200	284	410	390	1180	1303	710	
Electricity for towns	200	200	254	260	260	240	100	1514
	100	100	204	300	370	340	100	
Hydroelectric and steam turbines		40	160	240	60	30		530
				40	300	150	40	
TOTAL	749	1277	2055	2355	1974	1488	617	10517
	457	656	1012	1361	2746	2905	1380	
Amendments	-292	-621	-1043	-994	+772	+1417	+761	
		-2950				+2950		

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FOREIGN SERVICE DESPATCH

1956 NOV 7 PM 57

NEA MESSAGE CENTER

NBA OCR

TO : Department of State, Wash., D.C.

FROM : AmEmbassy, Tehran

REF :

Desp. No. 3~~30~~
October 25, 1956

SUBJECT: Comments of Minister without Portfolio, Dr. Ahmad Moqbel on the Plan Organization

ACTION NEA 4 11/5 | INFO REF. ? R-? /K-2 OLI-6 E-7 ICA-10 CIA-12 CON-10 XmB 3 TR 3 FRB 2

At a recent meeting with the reporting officer Dr. Ahmad Moqbel, Minister without Portfolio and Secretary General of the High Economic Council, made certain comments on the Plan Organization. His remarks are summarized below.

Commenting on Mr. Ebtehaj's (Director of the Plan Organization) efforts at the Export-Import Bank to get the Bank to relinquish the "negative pledge" clause in Iran's $53 million loan agreement in order to assist Ebtehaj in his request to the IBRD for a credit, Moqbel stated: "I have just learned from a confidential source that Ebtehaj made a complete fool out of himself in Washington and antagonized the officials of the Export-Import Bank. While this is most unfortunate, it was to be expected from a man of his temperament. When the Shah hears of this, and I am certainly going to tell him, it should accelerate his growing lack of support and distrust of Ebtehaj. I think a likely candidate to replace Ebtehaj would be Khosro Hedayat the present Deputy Director of the Plan Organization."

Moqbel emphasized the need for a change in the leadership of the Plan Organization and to illustrate his contention that the present Director was incompetent stated: "The Plan Organization under Ebtehaj continues recklessly to make contracts with every foreign firm that happens to walk by. Many of these contracts are ridiculous from the standpoint of the actual need for so many foreign technicians and the exorbitant salaries that are paid to them. The Lilienthal-Clapp group is an example of this. Many millions of dollars will be spent for more impractical and grandoise planning. Hydro-electric development in Khuzistan, while desirable in the distant future, is somewhat foolish at present when there is so much oil available to fuel turbine generators. Other examples of Ebtehaj's foolish policy are the Litchfield Whiting and Interetud contracts. I simply do not understand why it is necessary to bring in hundreds of foreign technicians to build a few rooms in a few villages. There are many qualified Iranians who could do this work for much less money. I hope the new Director of the Plan Organization will be more circumspect in making contracts with foreigners."

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RJCarle:bp

COMMENTS:

Moqbel's anti-Ebtehaj feelings date from the time he entered the present government some nine months ago. However he has never before been quite so optimistic about the possibility of Ebtehaj's removal from office.

It is logical to assume that the Shah's support of Ebtehaj in the face of continuous and considerable criticism from a conservative like Moqbel will be considerably lessened if Ebtehaj fails to obtain the loan in question, especially in light of the fact that there has been a great deal of advance publicity (probably originating from Ebtehaj) about his success in obtaining the loan.

FOR THE AMBASSADOR:

Robert J. Carle

Robert J. Carle
Third Secretary of Embassy

1) NEH
2) [illegible]

NW 11/8

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FOREIGN SERVICE DESPATCH

FROM : EMBASSY, TEHRAN   386 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.   November 10, 1956. DATE

REF : Despatch 73 of July 30, 1956 and A-59 of August 21, 1956.

For Dept. Use Only 11	ACTION NEA 4	DEPT. INFO RMK-2 oli 6 Rep-2 E-7 ICA-10 EUR-5
	REC'D 11/19	OTHER Cia-12 Com-12 TR-3 OSD 4 FRB-2 IN-7

SUBJECT: Cash Flow Analysis of Plan Organization Finances

The Consortium has now indicated to the Embassy that due to too many imponderables it could not comment on the estimated oil revenues as projected in a cash flow analysis of Plan Organization finances made last May by Dr. Francois CRACCO, the Belgian economist with the Plan. This analysis, which was presented by the Plan to representatives of IBRD in connection with its loan application, is the only projection known to the Embassy which offers an idea of the Plan's financial position over seven years. The Embassy therefore transmits as Enclosure I, II, and III this analysis and two memoranda written by Dr. Cracco explaining the basis of his revenue estimates. He arrived at the figures on expenditures by simply adding up the proposed allocations to programs which had then been drawn up.

The Embassy has no comments beyond the belief that the Consortium considers these estimates as high. In Enclosure IV, a recent estimate of oil revenues prepared by the Economic Affairs Office of USOM/I, Tehran, it is to be noted estimates for the years 1335-1340 are lower than those of Dr. Cracco.

FOR THE AMBASSADOR:

Eugene L. Padberg, Jr.
Eugene L. Padberg, Jr.
Commercial Attache

REC'D
NOV 20 1956
Economic Section
Office of [illegible]
and [illegible]

File

Enclosures:
As stated above.

Copies to:
Embassies, London, [illegible], [illegible], Baghdad
Consulates, Isfahan, [illegible], Khorramshahr and Meshed
USOM/I (Mr. Paige, Mr. [illegible]).

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Encl. No. 1
Desp No. 386
From Amembassy, Tehran

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I R A N
Plan Organization

CASH FLOW SHEET - I

(In millions of rials)

	1334 (Second half-year)	1335	1336	1337	1338	1339	1340	1341 (First half-year)
I. Cash and Bank Balances at Beginning of Period	+ 1396	+ 560	- 3966	- 9831	- 14490	- 14209	- 8835	+ 2720
II. Revenue	2028	6500	8500	11200	16400	18000	19725	11020
1) Oil Revenue	1930	6500	8500	11200	16400	18000	19700	10900
2) Various Revenues	98	-	-	-	-	-	25	120
III. Expenditures	2864	11026	14365	15859	16119	12626	8170	2740
1) Projects and Works	2864	10976	13990	15234	15369	12001	7795	2740
2) Financial Charges	-	50	375	625	750	625	375	-
IV. Cash and Bank Balances at end of Period	+ 560	- 3966	- 9831	-14490	-14209	-8835	+ 2720	+11000
V. Minimum Treasury Facilities (End of period)	-	500	500	500	500	500	-	-
VI. Credit Needs at the End of Period (in millions of rls)	-	4466	10331	14990	14709	9335	-	-
Equivalent in millions of dollars		59	138	200	196	125		

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Economic Bureau
Plan Organization

Tehran June 14, 1956.

TO : Mr. A.H. Ebtehaj

FROM: Dr. Cracco

OBJECT: Cash Flow - Projection of Oil Revenue accruing to the Plan Organization

With reference to the observations presented by MM. Perry and Rosen as to the expectations of oil production and oil revenue, I concede that:

1. The original figure of 42 million of cubic meters retained as probable oil production in 1336 is probably somewhat too optimistic and should be scaled down to 39 millions of cubic meters.

2. The estimates of the Plan Organization share in oil revenue should not be exclusively made upon a 80 p.c. basis but that a 75 p.c. basis should also be taken into consideration.

I have consequently revised the table of anticipated oil production and revenue inserted in the explanatory memorandum annexed to the cash flow sheet. The amended table appears as annexed to the present note.

The incidences of these changes upon the cash flow sheet are the following:

1. Total oil revenue accruing to the Plan Organization during the Seven Year Plan period is reduced from 93130 millions of rials to 84.280 millions of rials on the basis of a 75 p.c. share and to 87.930 millions of rials on the basis of a 80 p.c. share. This implies that in the first case revenue and expenditures balance approximately at the end of the seven year period and that in the second case cash balances at the end of the seven year period are reduced approximately by one half relatively to the original anticipated figure, of 11 billions of rials.

2. The maximum credit needs of 14990 millions of rials anticipated at the end of 1337, are increased to 17.090 millions of rials at the end of 1338 under the assumption of a 75 p.c. share and to 16.160 millions of rials under the assumption of a 80 p.c. share. The equivalent in dollars are respectively $228 millions and $216 millions.

The revised table shows the anticipated oil revenue accruing to the Treasury and the NIOC during the years 1335 to 1341. As very little information indeed is presently available as to the plans and programs of NIOC no further breakdown appears possible and consequently any opinion as to the probability that the trend shown by these figures will be accepted by the institutions concerned, is hazardous. As the share accruing to the Government will depend in fact on the rate of expenditures of NIOC, the investment and general financial policy of this last institution appears crucial from this point of view.

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This points further to the absolute necessity of some overall planning covering all public expenditures whatever the institutions concerned, if some realistic picture of the problem is to be drawn.

Dr. F. Cracco

Page 3 of
Encl. No. 2
Desp. No. 386
From Amembassy, Tehran

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ANTICIPATED OIL PRODUCTION AND REVENUE
FOR THE YEARS 1335 to 1341.

Years	Production (Millions of cubic meters)	Production (Millions of barrels)	Total Oil Revenue (In millions of dollars)	P.O. Share (In millions of dollars)		P.O. Share (In millions of rials)		Government + NIOC Share (In millions of dollars)	
1335	31	195	168	86		6.500		82	
1336	39	245	210	113		8.500		97	
1337	43	270	230	150		11.200		80	
				(1)	(2)	(1)	(2)	(1)	(2)
1338	47	296	253	190	203	14.400	15.230	63	50
1339	51	321	275	206	220	15.500	16.500	69	55
1340	56	352	301	226	241	17.000	18.100	75	60
1341	62	389	333	250	267	18.700	20.000	83	66

(1) Assuming P.O. share limited to 75 p.c. of total oil revenue.

(2) Assuming P.O. share limited to 80 p.c. of total oil revenue.

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CASH FLOW SHEET
EXPLANATORY NOTE

1. Cash and Bank Balances

Borrowing through the deficit years has been adjusted so as to provide for a minimum cash reserve of Rials 500 millions to meet current disbursement of the Plan Organization.

2. Revenue

A. Oil Revenue

Oil Revenue for the period 1334 - 1341 was estimated as follows:

1) As regards the year 1334, actual revenue booked by the Plan Organization

2) As regards the years 1335, 1336 and 1337, the Seven Year Plan Law provides that any Oil revenue in excess of $144 millions in 1335 and $188 millions in each of the years 1336 and 1337, will be credited to the government. It has been assumed that total oil revenue during the years concerned would actually exceed these amounts and that consequently according to the provisions of the Seven Year Plan, Plan Organization Revenue would be limited to:

60 p.c. of $ 144 millions in 1335
60 p.c. of $ 188 millions in 1336
60 p.c. of $ 188 millions in 1337

3) As regards the years 1338 to 1341 for which the Plan Organization is entitled to receive 80 p.c. of the total oil revenue share conventionally allocated to Iran, it has been assumed that through the years 1334 - 1341, total Middle East production would increase by 155 p.c. or more than 9.5 p.c. per year and that this last rate would apply to Iranian Production starting from an actual output of some 42 millions cubic meters in 1336.

Actual output in 1956 will probably reach 31 millions of cubic meters instead of the minimum of 27,5 millions guaranteed by the Oil Agreement. This Agreement provides for a minimum output of 35.- millions of cubic meters in 1957.

Posted Price has been estimated at $1.91 per barrel and operating costs at 20 cents U.S.A. per barrel. It has been assumed that any increase in operating costs would be absorbed by increased efficiency resulting from larger scale of operation. Consequently profit per barrel has been estimated through the years at $1.71, fifty per cent of which or 85,5 cents U.S.A. per barrel being the Iranian share.

These assumptions lead to the following figures as regards the

oil revenue accruing to the Plan Organization through the years 1335 to 1341.

Year	Production (Millions of cubic meters)	Production (Millions of barrels)	Total Oil Revenue (Millions of U.S. dollars)	P.O. Share: Millions of U.S. dollars	P.O. Share: Millions of rials
1335 (56-57)	31	195	168	86	6.500
1336 (57-58)	42	264	225	113	8.500
1337 (58-59)	46	289	247	150	11.200
1338 (59-60)	51	321	274	219	16.400
1339 (60-61)	56	352	300	241	18.000
1340 (61-62)	62	390	334	265	19.700
1341 (62-63)	68	427	365	292	21.900
1341 (Half-Year)	34	213	182	146	10.900

It should be stressed that apart from any revision of the Plan Organization Law, the following factors might considerably affect these estimates.

1. Any change in the posted price of crude oil probably would change the distribution of oil production in the world to the prejudice of the Middle Eastern share. 2. Any change in the rate of increase of oil consumption which is supposed to progress by some 74 p.c. in the world between 1955 and 1965, the percentages applicable to the States and the rest of the World being respectively 53. p.c. and 104 p.c.

2. The assumptions retained to project Iranian Oil revenue through the years 1955 to 1965 broadly agree with the conclusions reached in a report submitted by the [illegible] BANK oil department for the

meeting of the American Institute of Mining and Metallurgical Engineers in February 1956. They appear also to be confirmed by the investment plans and programs of the main companies engaged in the Middle Eastern oil industry.

3. Expenditures

A. Projects and Works

Actual expenditure as regards the second half of 1334.

Estimated expenditures for later years as compiled by the technical departments of the Plan Organization on the basis of present cost of goods and services.

The figures do not include any expenditures incurred by the Plan Organization in relation with current operation of industrial plants.

B. Financial Charges

Financial charges have been estimated at some 5 p.c. of the average amount of credit required by the Plan Organization for Treasury balancing purposes including the maintenance of a minimum cash reserve to meet current disbursements. This minimum cash reserve has been estimated at some 500 millions of Rials throughout the seven year period.

4. General Observations

The rate of expenditures is supposed to increase as follows during the four first years of the Plan:

From 1334 to 1335	:	91 p.c.
" 1335 to 1336	:	27,6 p.c.
" 1336 to 1337	:	8,9 p.c.
" 1337 to 1338	:	1,1 p.c.

The maximum rate of expenditure is supposed to be reached in 1338. From this maximum, it falls by 22 p.c. in 1339, by 50 p.c. in 1340 and by 64 p.c. in 1341.

One may well wonder to what extent it will be technically possible to step up expenditures at such a rate from 1334 to an important fraction from 1338 to 1340, the more so that local expenditures appear to make up a rather large fraction of total expenditures.

If so, the maximum anticipated deficit of some $200 millions will probably not be reached while some supplementary program will have to be initiated from 1340 on in order to keep up somewhat the rate of expenditures. If oil revenue comes to expectations, financial resources are available to this effect.

The maximum deficit of some $200 millions exceeds the monetary reserves of the country by one third approximately and equals the anticipated annual income of the Plan Organization during the years 1337 and 1338 when this deficit is expected. It also largely exceeds the value of annual non-oil exports of the country. In so far as projection of revenue proves right, this deficit can however, be easily borne at least from a financial point of view. It remains further within the limits of the borrowing authorizations extended by law to the Plan Organization.

Tehran, May 29, 1956.

GOVERNMENT OF IRAN
TOTAL OIL REVENUES

(Millions of $)

Year	Amount		Annual Increase
1332 (1953-54)	0		0
1333 (1954-55)	28.8	(Actual)	28.8
1334 (1955-56)	92.1	"	63.3
1335 (1956-57)	160	(Estimate)*	67.9
1336 (1957-58)	200	"	40
1337 (1958-59)	230	"	30
1338 (1959-60)	260	"	30
1339 (1960-61)	280	"	20
1340 (1961-62)	300	"	20

Note: The above revenues include both the "stated payment" to the National Iranian Oil Company and the Plan Organization's share of the Government's oil revenues; they exclude foreign exchange receipts of Bank Melli from the sale of rials to the Oil Consortium to finance the Consortium's local expenses.

USOM/Iran - Economic Affairs
October 6, 1956.

* Estimated by USOM/Iran.

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, TEHRAN — 416 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — November 21, 1956 DATE

REF :

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71	E-7	INFO	REP. 2 RM/R 4 OLI 8 NEA 4 ICA 10 EUR 5 L-2
	REC'D 11/28		OTHER CIA-12 USIA-10 XMB 3 TR 3 COM-10 FRB 2

SUBJECT: Proposed IBRD Credit to Plan Organization

Submitted as an enclosure to this despatch is a statement (at a press conference on November 11) by Mr. Abol Hassan EBTEHAJ, Director of the Plan Organization, concerning the proposed IBRD credit of $75 million to the Plan Organization. This English translation was presumably prepared by the Plan Organization.

It will be noted that no reference is made to the terms and conditions which are being insisted upon by IBRD. Although the Embassy has no information from the Department concerning these terms and conditions, they are understood to include the following: a firm pledge of oil revenues to insure repayment (on a scheduled basis) of credits extended; a substantial cutback in the level of proposed expenditures by the Plan Organization; and no borrowing from other sources by the Plan Organization during the two-year period (beginning August 1956) when IBRD will extend credit (up to $75 million) to the extent required to meet the Plan Organization's deficits.

When the proposed credit was considered recently by the Council of Ministers, there was a considerable flurry of opposition. It is understood that this opposition was alleged to be on the ground that IBRD would interfere in Iran's internal affairs but was actually based on opposition to EBTEHAJ and his management of the economic-development program. Eventually, the Council was persuaded that it could not seem to be in the position of blocking the Plan Organization program and the proposed credit was referred for approval to the Joint Committee on the Plan Organization in the Parliament as required by law.

This Committee has held its first meeting. According to Mr. Ebtehaj who was in attendance, the first two hours were devoted to discussion of who should be chairman and the next two hours were devoted to discussion of whether the Senate (through representation on the Joint Committee) is permitted by the Constitution to exercise any jurisdiction in such financial matters. Although fireworks are to be expected during the Committee's deliberations, Mr. Ebtehaj displayed to the reporting officer the optimism that is customary for him when his own plans are involved and predicted that all "preliminaries" on the Iranian side will be concluded in three or four weeks. He indicated that Ambassador AMINI and a representative of the Plan Organization will sign the agreement in Washington.

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With respect to the problem surrounding the negative-pledge clause in the agreement between the Export-Import Bank and Iran, Ebtehaj indicated that the following solution will be proposed. Iran's oil revenues are paid through the Midland Bank in the U.K. The Plan Organization's share of the oil revenues is paid into Account "G"; other oil revenues, including the "stated payments" to NIOC, are paid into Account "O". The proposed IBRD credit to the Plan Organization will be repaid (over a period of seven years) from Account "G". Similarly, the Midland Bank will be instructed to make payments of principal and interest (as they fall due) to the Export-Import Bank from Account "O" during this seven-year period. It is understood that Ambassador Amini will shortly be instructed to propose this solution to the Export-Import Bank.

FOR THE AMBASSADOR:

Peyton Kerr

Peyton Kerr
Counselor of Embassy
for Economic Affairs

Copy to:

USOM/I

Enclosure:

Press Statement by Mr. Ebtehaj,
Director of the Plan Organization,
dated Nov. 11, 1956

Mr. Abolhassan Ebtehaj, Director of the Seven Year Plan, today, (November 11) stated in a Press Conference:

Following the discussions held in the month of Khordad (May-June) with Mr. Eugene Black, the director of the International Bank in Tehran, I continued these discussions in my latest visit to America in order to obtain a loan, and as a result the International Bank has agreed to allow a loan of $75 million to Iran.

The draft agreement for the loan has been drawn up and is being studied by the competent authorities in Iran. After the completion of the preliminaries, the contract will be signed in Washington. The preliminary formalities may take a month or two.

I must again stress here that the International Bank is an independent international institution, not related to any government and operates entirely as a commercial and economic institution.

This loan will be utilised to finance the first three years of the Second Development plan, for which the oil revenues are not sufficient. After that it would be refunded in almost equal six monthly installments to the International Bank.

In paying this loan, the International Bank has allowed us facilities unprecedented so far, and none given to any other country before Iran.

The International Bank normally gives loans against definite projects. The projects in question must be specifically projects of development, and capable within a specified period after their application to give enough revenues to pay back the Bank's loan. In this way the Bank does not give loans for educational, or health projects which are not intended to give revenues: loans are also not given against industrial projects, for the principle is that industries must be privately run, and governments generally cannot efficiently run industrial concerns. Usually the International Bank restricts its assistance to expenditure which has to be met from foreign exchange reserves; expenditure in the country's own currency must come from its own revenues.

If the International Bank had desired to follow its normal procedure of investigating fully each project submitted, as the usual time for such an investigation is about a year, it would have taken the Bank years to investigate all the projects which form our Seven Year Plan. It is obvious that such a procedure would have been of no use for us for we could not stop part of our work and could not, on the other hand, carry on and complete all the projects in time. What the Bank has done has been to extend to us an ordinary commercial credit of $75 million, on which we can draw during the first years of the plans to cover the deficit between expenditure and revenue, and apply the money from the loan against the various current projects, and to

return the loan in the latter years from the revenues allotted to the Plan from the oil. The Bank has also allowed us facilities for the refund of the loans before maturity.

Long discussions were held with the Bank on one subject which I think is of special interest to the editors, and to the people of Iran. The Bank believes that during the first years of the Plan, we should work with due care, and also believes that before completing the administrative and executive cadres, we should not tackle so many projects that could not be entirely and satisfactorily completed.

The total credits envisaged for the Seven Year Plan is considered reasonable by the Bank, but the Bank also believes that in order to ensure good performance the volume of work must be in relation to the organisations carrying it out, and should be increased in proportion to the growth of these organisations.

As you know the International Bank is fully conversant with the development projects of all the sixty countries who form its membership, and with the experience acquired over the last ten years in these countries, can competently advise other countries. As you gentlemen are aware, some people in Iran have exactly the opposite opinion of the work of the Seven Year Plan, and believe that work is progressing very slowly. Our efforts tend to carry out the wishes of His Imperial Majesty the Shahinshah in such a way in the development of the country, and to answer the wishes of the people of Iran in such a way that while the maximum amount of work is done in the minimum of time, hasty and wrong decisions should not be taken which would later be regretted.

In order to improve its administrative organisation, the Plan Organisation has taken steps which, I hope, would render it capable of coping efficiently with what is required of it.

Mr. Ebtehaj stated, in answer to an enquiry by a reporter whether the loan was actually at the disposal of the Plan Organisation at present, that:

Preliminary formalities must be completed in Iran, and today we have a committee made up of representative of the Plan, of the Ministry of Finance and Ministry of Justice which deals with these formalities. The Minister of Justice must decide whether such a loan is in agreement with the country's laws.

The draft contract has been translated into Iranian and submitted to the Cabinet and after ratification by the Committees of the Houses of Parliament, the draft agreement will have to be approved by the Cabinet, and then signed so that the loan will be utilised.

In answer to another enquiry as to the way the loan will be used, Mr. Ebtehaj said:

The loan would be applied against all the development projects of the country, and the only caution the Bank has advised us to take was not to commit ourselves to projects which we are not organised enough to carry to completion. As in my opinion the administrative organisation lacks a suf-vicient number of competent officials, we have asked the Government Affairs Institute in America to lend us experts to come to Iran and carry out the necessary study in this connection. The Government of the USA has also agreed to assist us to the extent of $5/600000 to carry out this investigation.

Another expert who will come to Iran to assist and advise on a project for vocational education, is a well known expert by the name of Mr. John Stambo, who was Acting Director of ICA in Washington and later became Mr. Stassen's assistant.

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FOREIGN SERVICE DESPATCH

Desp. No. 437

FROM : AMEMBASSY, TEHRAN November 28, 1956

TO : The Department of State, Washington

SUBJECT: Proposed IBRD Credit to Plan Organization

Submitted as an enclosure to this despatch is a memorandum of conversation between the Minister of Finance and an Embassy officer concerning the proposed IBRD credit to the Plan Organization.

FOR THE AMBASSADOR:

Peyton Kerr
Peyton Kerr
Counselor of Embassy
for Economic Affairs

Enclosure:

As stated above.

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Meshed
Isfahan
Khorramshahr
Tabriz

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RECD 12/4
ACTION E-7
INFO
REP-2
OLI-8
L-2 KA-10
NEA-4

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MEMORANDUM OF CONVERSATION

PARTICIPANTS: Mr. Qolam Hosein Forouhar - Minister of Finance
Peyton Kerr - U.S. Embassy

DATE : November 25, 1956

SUBJECT : Proposed IBRD Credit to the Plan Organization

At his request, I called on the Minister at his home at 8:30 a.m. on Sunday. The sole subject of conversation was the proposed IBRD credit to the Plan Organization, about which the Minister supplied the following information:

In addition to the problem concerning the negative-pledge clause in the Export-Import Bank agreement with Iran, certain other terms of the proposed IBRD credit are difficult to accept, notably the following: the borrower undertakes not to change the allocation of oil revenues to the Plan Organization as provided in the Second Seven-Year Plan Law without the IBRD's approval. The Iranian Embassy in Washington and/or the Plan Organization have retained an American lawyer, Mr. Donald HISS, to advise them concerning the proposed IBRD credit. In his brief, a copy of which the Minister had in hand, Mr. Hiss expresses the opinion that any such commitment by the GOI concerning allocation of oil revenues is contrary to the Constitution, since it is the prerogative of the Parliament to allocate Iran's oil revenues. (Governor NASSER of Bank Melli subsequently indicated to the reporting officer that this stipulation--laid down by IBRD--has been misunderstood on the Iranian side, perhaps wilfully--that it amounts to nothing more than a commitment to implement the provisions of the Second Seven-Year Plan Law concerning the allocation of oil revenues, and in the Governor's opinion is unobjectionable.)

The Minister implied that Mr. Hiss had also questioned other terms in the proposed agreement so that when the Hiss brief was presented to Mr. Ebtehaj at a meeting of the Council of Ministers on November 24, Ebtehaj said that Hiss is an ignoramus and he will not pay his fee (which presumably was to be paid by the Plan Organization).

The Minister also had in hand a draft letter from the Prime Minister to Mr. Eugene BLACK, President of IBRD, which the Minister understands was drafted by IBRD. The letter was transmitted by cover letter from Mr. Ebtehaj which stated that the letter "must" be signed by the PM. According to the Minister, the gist of the letter is that all borrowing by Iran for economic development should be coordinated and a real start

must be made to balance the budget. The Minister questioned the purpose and necessity of such a letter and challenged in particular Mr. Ebtehaj's statement that it "must" be signed.

According to the Minister, Mr. WAUGH, President of the Export-Import Bank, has indicated to Dr. AMINI that it is not to the benefit of Iran to accept the terms proposed by IBRD, that the Export-Import Bank has relied on the credit standing of the Government of Iran and has assumed that the Government of Iran will meet its obligations to the Export-Import Bank, and has asked why the IBRD should not do likewise without requiring a pledge of oil revenues. In letters to the Foreign Office and to the PM, Dr. Amini has indicated that the GOI should consider the proposed terms very carefully in an effort to find a solution that is acceptable to the GOI but that a letter and more reasonable solution cannot be found as long as Ebtehaj "is not calm", and that he is waiting to hear the Government's views. In the Minister's opinion, Dr. Amini implies that he is opposed to the proposed credit, or is at least reluctant. The Minister stated that Dr. Amini does not get an impression from Mr. Hoover and other high officials in the Department that the proposed terms should be accepted. The Minister stated incidentally that, two years ago, Mr. Black was opposed to a pledge of oil revenues.

The Joint Committee of the Parliament demanded the text of the proposed agreement with IBRD. Ebtehaj told the Committee that this text is "none of their business". The Committee voted that "they must see it" and Ebtehaj sent it, whereupon "the controversial articles were published last night in Keyhan".

The Minister indicated that there is strong opposition to the proposed credit in both the Council of Ministers and in the Joint Committee of the Parliament, that difficult issues are posed which will probably not be resolved quickly. When questioned, he agreed that this opposition is based largely on antipathy to Ebtehaj and a desire to see him dismissed as well as on misunderstanding of the terms of the draft agreement. He indicated further that, in his opinion, the members of the Committee are taking this opportunity to express (indirectly) opposition to the Shah. All in all, there is a dragging of feet and a disposition to employ delaying tactics. The Minister would venture no opinion concerning the extent to which the Shah would see fit to impose his will in order to obtain the approval of both the Joint Committee and the Council of Ministers.

(From another source--Senator BUSHEHRI, Vice-President of the Senate--the reporting officer is informed that members of Parliament consider that there is a vital distinction between the Farsi words for "credit" and for "loan", that legislation authorizing the Plan Organization to borrow up to $240 million contemplated only "credit" in the form of suppliers' credits, that "loans" should be confined to specific projects that are revenue-producing and hence self-liquidating, and even such "loans" should be referred to the entire Parliament for approval instead of to the Joint Committee since it is conceivable that some Government other then the present one might see fit to accept "loans" from the USSR and it is essential to require approval by the entire Parliament in order to insure that such loans will not be accepted. The Senator stated that all members of the Joint Committee are opposed to the proposed credit from IBRD and that there is additional ground for this opposition, namely, that since the proposed credit is not intended for specified projects, the proceeds will be dissipated in the same manner that Plan Organization revenues have been dissipated thus far.)

PKerr/vdr

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FOREIGN SERVICE DESPATCH

FROM : American Embassy Tehran — DESP. NO. 442

TO : THE DEPARTMENT OF STATE, WASHINGTON. — DATE: November 28, 1956

REF : Embassy Despatch 416, November 21, 1956

For Dept. Use Only	ACTION	
67	E-4	DEPT. INFO
	REC'D 12/4	OTHER

SUBJECT: Mounting Political Dispute Over Proposed IBRD Credit to Iran

SUMMARY

Plan Organization Director EBTEHAJ and the Shah are meeting strong opposition from numerous and influential Deputies and Senators, in their plan to obtain a 75 million dollar loan from the World Bank. The opposition to this loan, apparently led by the President of the Senate and the Speaker of the Majlis, appears to be strong and clever, although it is probably based on personal antagonism to Ebtehaj than on constitutional principles. The Shah will probably be forced to apply heavy pressure to individual legislators if the loan is to be approved as is expected to be the case.

* * * * * * * * * * *

On November 19th, Plan Organization Director Ebtehaj presented to the Joint Plan Organization Committee of the Parliament a proposed contract between himself and the World Bank providing for the extension of a credit of 75 million dollars to the Plan Organization, to be repaid within the next seven years from the oil revenues accruing to the Iranian government. The Embassy has not yet obtained a copy of the proposed contract, but it is understood that, among other provisions, the contract states that the Iranian Government will refrain from obtaining any other loans based on the oil revenues, and that the loan will be repaid directly by the Midland Bank in Britain from the sums paid to it by the Consortium. (See Des 416 for further details re these negotiations.)

The Embassy is informed that Mr. Ebtehaj, in his presentation to the Parliamentary Committee, emphasized (a) the loan, unique in the history of the World Bank in that it is not tied to specific projects, was obtained largely because of the personal confidence reposed in him by the officials of the World Bank, and (b) the loan represents a necessary step in preventing Plan Organization projects from being delayed during the second and third years of the current Plan, and is a method whereby revenues accruing during

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the latter years of the current Plan can be utilized during the first few years of the period.

Opposition to this proposal was fervent and widespread on the part of numerous members of the Joint Committee. A large proportion of the opposition stemmed from personal antagonism to Ebtehaj, but part of it was based on principle. Loans from abroad are always an extremely touchy subject with Iranians, due in part to the sad history of previous foreign loans in Iran, particularly during the last years of the Qajar Shahs, where foreign loans from Britain and Russia were used as instruments in the political and economic penetration of Iran. Two particularly sensitive points in Iranian reactions to foreign loans involve any suggestion that loans are to be used for current, non-amortizable expenses, and that governmental revenues are specifically mortgaged for the repayment of such loans. To many Parliamentarians, it would appear that the second principle is clearly involved in the proposed method of repayment, and there is even talk that Ebtehaj is tampering with the sovereignty of the Iranian Government in agreeing to such a repayment procedure.

More basic is the opposition based on constitutional and legal grounds. The Second Seven Year Plan bill, in the form originally submitted to the Parliament, provided that the Plan Organization could obtain unlimited foreign loans to make up requirements for expenditure in the first three years of the second Plan. The Senate amended this provision (Article VIII, Note 3) by limiting the amount to 240 million dollars, and by substituting the Persian word <u>etebar</u> for the original word <u>qarze</u> (See Emb Des 887, April 18, 1956). While Persian dictionaries often translate both words as meaning loan or credit, the actual use of the words in Tehran at the present time shows that there is an important difference in their meanings. <u>Etebar</u> is usually employed to designate purchasing on credit, where no money is received by the borrower, whereas <u>qarze</u> signifies the borrowing of a sum of money. For example, a bank's financing of imports would be termed <u>etebar</u> in Tehran, whereas a bank loan of cash would be called <u>qarze</u>. The Senate (and the Majlis, which approved the Senate amendments to the bill) believed that by changing this word, they were limiting Ebtehaj to purchasing specific goods and materials on credit. The legislators, at the time the first Seven Year Plan bill was passed, thought that they had specifically prohibited Ebtehaj from pledging the nation's credit for a foreign loan, since foreign <u>loans</u> (qarze) must, according to the clear provisions of Article XXV of the Constitution, be approved by a majority of the Majlis as whole. (As noted below the Senate believes that it also should pass on such loans.) Ebtehaj's <u>credit buying</u> for the Plan Organization, on the other hand, could be approved by only the 24-member Joint Plan Organization Committee of the Parliament, according to the law.

Legislators of both rightist and leftist political views consider the Government's apparent plan to take the loan on the basis of approval by the weak and easily-influenced Joint Committee rather than the full membership of the Parliament to be clearly unconstitutional, a trampling of one of the basic rights of the Parliament, and a very dangerous precedent for the future.

The issue has been complicated by a quarrel between the two Houses of Parliament, wherein the majority of the members of the Majlis are contending that the Senate half of the Joint Plan Organization Committee has no right to vote on the proposed World Bank loan because of the provisions of the Constitution giving the Majlis alone the right to pass on financial matters. These provisions are the subject of perennial quarrels between the two Houses (See Emb Des 627, January 26, 1956). There are indications, however, that the quarrel may represent a maneuvre on the part of the Presidents of the Majlis and the Senate, both of whom are known to be privately opposed both to Ebtehaj and to the World Bank loan, to strengthen the weak Joint Committee. It is probable that within the next few days the Presidents of the two Houses, meeting together with the minor officers of the two Houses, may decide the issue by informing the Joint Committee that there is no occasion for a quarrel, since the Joint Committee has no authority to approve such a loan in the first place. In the meantime, Ebtehaj and the Government cannot drive through a quick approval in the Joint Committee because many of the Deputies are boycotting its meetings under the excuse that they will not participate in consideration of the proposal as long as Senators are present.

The Tehran press is reported to have received instructions from the Government to either support the loan or remain silent; several luke-warm editorials in favor of the loan have appeared recently. Tehran radio has strongly supported the loan.

On November 27th, the first open reference to the loan was made in the Majlis, when Deputy Syed Ahmad TABATABAI, an undistinguished jurist selected by the Shah with the approval of Ayatollah BORUJERDI (the Deputy represents Qom), attacked the proposed loan in a pre-agenda speech. He called it an insult to Iran, and alleged that by the terms of the agreement, Iran would have to "mortgage everything we have". A trained observer with long experience of the Majlis stated that the Deputies rose to their feet, yelled approval, and applauded in a demonstration more spontaneous and emotional than anything which has been seen in the Iranian Majlis since the days of Mosadeq.

The various objections raised by Iranian politicians appear largely to be based on their intense dislike of Ebtehaj, and their belief that the loan, by offending as it does some deep-seated sacred

cows of the Iranian political mind, offers an ideal method of attacking Ebtehaj with a view to dislodging him from office.

Every day the Shah is more deeply committed to the loan and it is expected that he will continue to support Ebtehaj as he has in the past. Thus he will probably be able: (1) to force the Presidents of the two Houses to accept the jurisdiction of the Joint Committee to authorize this credit without the approval of Majlis as a whole, (2) ram the measure through the Joint Committee, and (3), stifle protests which would otherwise arise when the Government does not bring a bill before the Parliament in accordance with Article 25 of the Constitution. However, every time he pushes a project through in this fashion, he damages his relations with numerous Parliamentarians, particularly the Constitutionalists, and appears more openly as the responsible head of the Government.

The opposition which is developing appears to be organized and directed by conservative elements in such a way that it will be almost impossible for nationalists and their friends to do other than follow the conservative lead. (Ebtehaj has a few friends in the Iran Party and among certain student groups.) Conservatives have, for the time being, taken the opposition lead away from the would-be radicals, who were unable to take advantage of the natural opportunity afforded them by the Egyptian crisis a month ago. (Emb Des 388 of Nov. 10, 1956.)

American Embassy officials are being told that the loan represents proof that the United States supports Ebtehaj; on the other hand, British Embassy officials state that they are informed from their sources that the loan personifies British support for Ebtehaj. Despite its international character, the IBRD is presented in Iranian Parliamentary circles as sometimes under American and sometimes under British influence.

FOR THE AMBASSADOR:

Philip Clock

Philip Clock
First Secretary of Embassy

Sent to: AmConsulates, Tabriz, Meshed, Isfahan, Khorramshahr.

Dept pass to AmEmbassy, London

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY TEHRAN — 443 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — November 29, 1956 DATE

REF : Meshed's Despatch No. 1, July 7, 1956
Embassy's Despatch No. 442, November 28, 1956

15 For Dept. Use Only	ACTION NEA-4	INFO DEPT. RM/R-2 REP-2 OLI-8 E-5 ICA-10 EUR-5 P-1 IO-4
	REC'D 12/11	OTHER CIA-12 OSD-4 COM-10 FRB-2 TR-3 XMB-3 USIA-10

SUBJECT: CONVERSATION WITH DEPUTY MOHAMED ALI EQBAL

(2)

Enclosed is a memorandum of conversation between Deputy Mohamed Ali EQBAL of Ferdows; Abdol Vahab EQBAL, former Mayor of Meshed; and the reporting officer.

Biographic:

Both men are brothers of the Minister of Court and Chancellor of the University, Dr. Manuchehr EQBAL.

Mohamed Ali was elected Deputy of the 19th Majlis from Ferdows, as indicated in the despatch under reference.

Abdol Vahab was Mayor of Meshed for about five years, as indicated in the Biographic Data Form, dated November 5, 1955.

Comment:

Of all the five brothers of Dr. Manuchehr Eqbal, Mohamed Ali is considered to be the closest to the Minister of Court. As outlined in the despatch under reference the Shah is reported to have decided during the recent elections for the Majlis that the position of deputy from Ferdows (in Khorasan) would be left open for a member of the Eqbal family, and the decision as to who would be chosen was left up to the Minister of Court. After some deliberation, Dr. Eqbal selected his younger brother Mohamed Ali. In a conversation with the reporting officer on November 25, the Minister spoke very highly of this brother, saying that he had more confidence in him than almost anyone else in Iran.

Considering this background, Deputy Eqbal's views on the post of Prime Minister are probably of some interest. It is evident that he and his brother, the former Mayor of Meshed, are confident that Dr. Eqbal would make a better Premier than Hosein Ala, and it is possible that they sincerely believe that the prestige of the monarchy is in danger. As indicated below, neither of them mentioned Dr. Eqbal specifically, but it may be assumed that in urging a strong Prime Minister, they naturally had their own brother in mind.

Criticism of the Director of the Plan Organization is an old story in Iran, but it is interesting to note that the 75 million dollar loan from the International

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From ___

Bank for Reconstruction and Development is being interpreted locally as evidence of United States support for Mr. EBTEHAJ. (Embdes. 442, November 28, 1956).

For the Ambassador:

Philip Clock

C. Philip Clock
First Secretary of Embassy

Enclosure

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MEMORANDUM OF CONVERSATION

American Embassy, Tehran

PARTICIPANTS: Mohamed Ali Eqbal, Deputy from Ferdows
Abdol Vahab Eqbal, former Mayor of Meshed
Thomas A. Cassilly, Second Secretary

PLACE: Suren's Restaurant, Tehran

TIME: November 15, 1956

SUBJECT: 1. Prime Minister
2. Plan Director

---

1. Prime Minister

Deputy Eqbal declared that the situation in Iran was only superficially calm at the [illegible] and that there were disturbing elements below the surface. The most unfortunate development recently was the threat to the prestige of the monarchy.

The institution of the monarchy was an element of strength and solidity in Iran; no other Middle Eastern country could claim to have the same tradition, but here the prestige of the Shah was deeply-ingrained in all Iranians as the result of several thousand years of tradition. It is essential, Eqbal believes, that the monarchy remain inviolable.

During the past year and a half, the Shah has taken more and more of a personal hand in directing the country while the Prime Minister has been reduced to the level of a figurehead. Mr. Eqbal praised the Shah highly as a generous, enlightened monarch with the best interests of his people at heart. Apparently he does not realize, however, that by making personal decisions - and letting it be known that they are personal - he is jeopardizing his own position.

Now consider the decision to join the Baghdad Pact, Eqbal proposed. Iranian public opinion was overwhelmingly in favor of this move, and it has indeed strengthened the country. But suppose that as a result of this present crisis, it should turn out that the Pact was untenable, that - for example - Iraq should withdraw, or the United States would not back it up. Then public opinion might turn against the organization and indirectly against the Shah, who is widely known to have made the decision himself.

Prime Ministers can come and go, according to the Deputy; that's what they were created for in the first place, to take on the responsibility of the king. But there is no one who could take the place of the Shah. You saw the confusion and anarchy that resulted in 1953 when His Majesty departed for only a few days. It is obvious that a revered and unassailable monarch is essential for the well-being of Iran.

Both brothers emphasized that the Shah should, for his own sake, delegate this responsibility to a premier who would be more than a figurehead. Asked if they had any one special in mind, both Eqbals claimed that any one of a dozen men could take over this responsibility; there was no one indispensible man for the job.

How about the Minister of Interior, who was a fellow Khorasani? Deputy Eqbal smiled and replied that he was too young and inexperienced. Minister Alam had not proved to be a very capable official; perhaps he might develop into one, but at the present time he lacked the stature for such an important job.

Then what about Golshayan, Dr. Eqbal or Senator Saed? Any one of them might do, Mohamed Eqbal replied; once again he wished to stress that he had no one particular in mind and had not given the problem any special thought.

2. Plan Director

Asked how they felt the Plan Organization was progressing, both Eqbals were full of criticism for Director Ebtehaj. The Deputy declared that the choice of Mr. Ebtehaj had been a bad one in the beginning and was turning out to be worse. He had no backing in the Parliament and had made enemies all over Iran. Apparently, though, he is being supported by the Americans.

What made the Deputy think that? Why, the 75 million loan from the IBRD; if the Americans had not wanted Ebtehaj to stay in power they never would have agreed to such a sizeable sum. It was pointed out that this loan was, of course, made to the nation, not one individual, and that the Bank was an international institution. According to the Eqbals, that is not the way the decision is being interpreted in Tehran; most of all, Ebtehaj was representing this loan as a personal triumph. He claimed that no one else could have persuaded the Bank to lend such a large sum; Ambassador Amini had been working away in Washington for months now without much conspicuous success. Ebtehaj goes over on a short visit and obtains a huge loan.

The Eqbals were told again that this could not be considered as anything but a loan to the entire nation to further economic development; personalities do not play even a minor role in such vital decisions. That may be true, they agreed, but that's not how it is seen in Iran. Whatever the reasons, the news of this loan had bolstered the Plan Director's prestige with both the Shah and the people so it looked as if Mr. Ebtehaj would stay in power indefinitely now. Deputy Eqbal insisted that the Plan Organization was not achieving results, and eventually Ebtehaj would have to be dismissed. By then he would be known as American-supported, and naturally this would detract from the United States position in Iran.

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, TEHRAN — 472 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — December 8, 1956 DATE

REF : Despatch 416, November 21, 1956

For Dept. Use Only	ACTION E-7	INFO DEPT. REP-2 RM/R-2 OLI-8 NEA-4 ICA-10 L-2
	REC'D 12/13	OTHER CIA-12 USIA-10 XMB-3 TR-3 COM-10

SUBJECT: Pending IBRD Credit to Plan Organization: Proposed Solution to Problem with Export-Import Bank

Despatch 416 outlined Mr. Ebtehaj's proposed solution to the problem surrounding the negative-pledge clause in the agreement between the Export-Import Bank and Iran. At a recent dinner party, the reporting officer asked Ebtehaj whether this proposal has yet been presented to the Export-Import Bank for consideration. He replied that, for reasons which he professed not to understand, the Government of Iran had not seen fit to forward his proposal to Ambassador Amini with instructions to discuss it with the Export-Import Bank.

Subsequently, Ebtehaj instructed a member of his staff to provide the reporting officer with a copy of the proposed letter to the Midland Bank and to request that it be forwarded through the Department for informal consideration by the Export-Import Bank. After accepting the draft letter without commitment, the reporting officer advised the Minister of Finance of this development and requested his views. The Minister's reply was to the effect that the Council of Ministers had not seen fit to forward the draft letter to Ambassador Amini because the Council has not decided whether to approve the proposed credit, that as a matter of fact there is strong opposition in the Council to the proposed credit, but that the Minister has no objection if this Embassy sees fit to forward the draft letter as requested by Ebtehaj--provided that the circumstances, as outlined above, are explained.

Accordingly, the proposed letter to the Midland Bank is submitted as an enclosure to this despatch with the request that it be passed to the Export-Import Bank as being of possible interest.

FOR THE AMBASSADOR:

Peyton Kerr

12/14

Peyton Kerr
Counselor of Embassy
for Economic Affairs

Enclosure:
Draft Letter to BMI and Midland Bank

Copy to: USOM/I

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DRAFT OF LETTER TO BE SENT BY THE MINISTER OF FINANCE TO BANK MELLI IRAN AND MIDLAND BANK CONCERNING THE LOANS CONTRACTED FOR THE GOVERNMENT OF IRAN

To Midland Bank:

This letter will constitute a standing instruction to you concerning our account 0 in your Bank and will continue in effect until altered or cancelled by us.

During the period ending . . . . /the date due on the first installment of each one of the credits obtained from the Eximbank for which the letter is being written/ and during each six months thereafter through the period ending September 15, 1962 you will hold or accumulate in account 0 all amounts credited thereto during such period to the equivalent of U.S. Dollars. . . . . /amount due semi-annually for the particular loan for which the letter is being written/ or such lesser amounts as shall have been notified to you from time to time for such purpose by the Eximbank.

On the last day of each such period, or on such earlier day in such period as we shall have notified to you and the Eximbank at least ten days in advance, you will pay to or on the order of the Eximbank, from amounts so held or accumulated in Account 0 during such period, such amounts Eximbank shall have notified you will become due to it during such

period
/ in respect of principal, interest and other charges under the Loan Agreement between Iran and the Eximbank, dated /date of Loan Agreement7. After the making of such payment for any period any balance of amounts so held or accumulated during such period shall be treated as if they had not been held or accumulated or subject to holding or accumulation pursuant to this letter. If at the time of any such payment the amounts so held or accumulated in Account O during such period shall not be sufficient to make such payment in full, you will apply such amounts in accordance with instructions given to you by the Eximbank.

AIR POUCH
PRIORITY

CONFIDENTIAL
(Security Classification)

DO NOT TYPE IN THIS SPACE
888.00-Seven Year/12-1856
XR 398.14

FOREIGN SERVICE DESPATCH

FROM : American Embassy Tehran   502 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.   December 18, 1956 DATE

REF : Embassy Despatch 442, November 28, 1956

For Dept. Use Only	ACTION E-7	REC'D 12/31	INFO DEPT. REP RM/R OLI 8 NEA ICA 10	OTHER CIA 12 COM-10 USIA-10 TR-3 XMB-3 FRB-2

SUBJECT: Current Status of IBRD Loan Controversy

The Parliament

While Deputies and Senators of various factions and political groups continue to express privately their dissatisfaction with regard to the terms of the proposed 75 million dollar IBRD loan and with the Government's plan to refrain from bringing the proposed loan before the Majlis as a whole, the preliminary settlement of current disagreements between the two Houses of Parliament has made it impossible for Majlis members of the Joint Parliamentary Plan Organization Committee to continue to boycott meetings of the Committee. It is expected that a meeting will be called within the next ten days.

Majlis Speaker HEKMAT has refrained from further open opposition to the consideration of the loan by the Joint Committee after a dressing down by the Shah last week, but his close associates in the Majlis are still sniping at the loan, and making vague threats that they will "do something about it".

Members of the Joint Plan Organization Committee believe that Plan Organization Director EBTEHAJ will have obtained the approval of the Cabinet for the loan agreement, or a slightly modified version thereof, before he asks the Joint Committee to approve it. It is no secret that members of the Cabinet, particularly FORUHAR and MOQBEL, have been covertly encouraging Parliamentary opposition to the loan; in fact, no Minister except GANJI has indicated to Deputies that he is in complete agreement with Ebtehaj. Should Ebtehaj present the agreement again to the Joint Committee with the news that it has been approved by the Cabinet, it will be quickly approved. If it has not been approved by the Cabinet, the members of the Committee, suspecting that the Cabinet intends to push the onus of accepting an unpopular measure onto the shoulders of the members of the Committee, will argue bitterly and possibly delay the measure, but if the Shah applies heavy pressure to recalcitrant Senators and Deputies, they will probably approve the loan.

JWBowling/okh
REPORTER

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The Cabinet

The Cabinet considered the loan agreement (English text) at a meeting last week. According to a Minister present at the meeting, the Shah lectured the Ministers severely regarding their alleged opposition to the loan agreement, and suggested strongly that they should cooperate in supporting the loan. Ebtehaj gave calm and logical answers to questions by various Ministers, and cleared up several points of disagreement (Ebtehaj's improved standard of courtesy has been noted by several sources - his young, beautiful, and recent wife may have something to do with this improvement).

Justice Minister GOLSHAYAN, however, mentioned several points in the agreement which required careful study, but opined that most of the doubtful legal points could probably be overlooked by the Cabinet if and when the Joint Committee approved the loan agreement. He told the Cabinet emphatically that he did not intend to be cursed again with the responsibility for another unpopular document like the Gass-Golshayan oil agreement.

Once the agreement is approved by the Joint Committee, the Cabinet will probably give its final approval, although a Minister reports that there is still a one-out-of-five chance that Golshayan and Foruhar will resign after thinking the matter over. Parliamentary sources state that Moqbel is also thinking of resigning.

Prospects

It seems fairly clear that both the Cabinet and the Joint Committee hope that the other will take the responsibility of first approving the agreement. Since the Joint Committee is the weaker of the two, it will probably be forced to approve first.

There seems to be little doubt that the agreement will be approved, providing the Shah maintains his present attitude toward the issue. But the Shah will have suffered on two counts: first, it will have been made clear to everyone that the loan is the responsibility of the Shah, and not the child of the Cabinet or the Parliament; secondly, the dispute has driven Hekmat and other conservative leaders into a sullen and resentful mood.

FOR THE AMBASSADOR:

John W Bowling

John W. Bowling
First Secretary of Embassy

Sent to: AmConsulates, Tabriz, Meshed, Isfahan, Khorramshahr.

Dingle

INCOMING TELEGRAM *Department of State* ACTION COPY

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Control: 14738
Rec'd: DECEMBER 23, 1956
6:44 AM

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FROM: TEHRAN

TO: Secretary of State

NO: 962, DECEMBER 23, NOON

PRIORITY

EBTEHAJ MADE FOLLOWING APPEAL TO EMBASSY TODAY:

IF PROPOSED CREDIT AGREEMENT BETWEEN IBRD AND PLAN ORG NOT (RPT NOT) SIGNED BY DEC 31, INTEREST RATE INCREASES ONE PERCENT. TELEGRAM FROM BLACK TO EBTEHAJ INDICATES IBRD WILLING SIGN AGREEMENT PRIOR RATE INCREASE IF (1) ASSURED OF APPROVAL BY PARLIAMENT AND GOI (2) SOLUTION AGREED BY EX-IM BANK TO NEGATIVE PLEDGE PROBLEM. EBTEHAJ SAID FORMER CONDITION IN HAND AND EMBASSY INCLINED AGREE. RE NEGATIVE PLEDGE, HE SAID ALTHOUGH GOI HAD STILL NOT (RPT NOT) TRANSMITTED PROPOSED SOLUTION TO EX-IM, PROPOSAL TRANSMITTED INFORMALLY BY THIS EMBASSY (DES 472 DEC 8) AND PM (RPT PM) WOULD NOW (RPT NOW) BE REQUESTED INSTRUCT AMINI SEEK URGENTLY OBTAIN EX-IM APPROVAL. IN THIS CONNECTION, EBTEHAJ ASKED EMBASSY REQUEST DEPT USE ITS GOOD OFFICES.

IF AMINI SO INSTRUCTED, I RECOMMEND DEPT ADVISE EX-IM PROPOSED SOLUTION APPEARS REASONABLE AND FAILURE OBTAIN IBRD CREDIT WOULD CAUSE FURTHER SERIOUS DELAY IN PLAN ORG PROGRAM.

CHAPIN

JLN

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13204

SENT TO: Amembassy TEHRAN 1214

888.00 Seven Year/12-2356

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Origin

Info:

~~Re~~ EMBTEL 962.

IBRD cabled Ebtehaj if Exim negative pledge problem resolved Bank prepared sign loan agreement to be effective when ratified by Majlis with interest rate 5 percent if signed by time first January meeting IBRD Board. Dept. assumes GOI understands negative pledge problem includes ICA loan.

FYI - Next meeting of IBRD Board scheduled January 15. Amini presented Exim December 26 with proposal along lines reported EMBDES 472. Bank studying and will expedite consideration by Exim Board. End FYI.

Dulles

"DULLES"

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888.00 Seven Year

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Drafted by: OFD:ED:JAlynn:jm 12/26/56

Telegraphic transmission and classification approved by: Emerson Ross

Clearances: GTI-Owen Jones   Eximbank-Stambaugh   IBRD-Hooker

S/S-CR
DEC 27 1956 P.M.

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Control: 17917
Rec'd: December 31, 1956
10:07 a.m.

FROM: Tehran (Via Pouch) 16

TO: Secretary of State

NO: Unnumbered, December 26

Re EMBDES 502, December 18

Following meetings by Shah with PM and Cabinet and meeting PM and Majlis Speaker, Finance Minister introduced in Majlis, December 23, a priority bill for approval of proposed 75 million dollar IBRD loan.

December 25 Joint Plan Org Committee (by vote of 22 to 3) and Majlis Foreign Relations Committee approved bill. Majlis approval expected December 27 or 30.

Parliamentary opposition to loan disorganized by rapid action of government in unexpectedly bowing to views of Majlis and Senate leaders and submitting loan to Majlis, since opposition had been largely based on alleged slight to dignity of Parliament implied in plan to bypass Majlis.

CHAPIN

VMM/12

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Control: 15876
Rec'd: December 27, 1956
10:53 a.m.

FROM: Tehran

TO: Secretary of State

NO: 976, December 27

Reference: unnumbered telegram pouched December 26.

Majlis today approved IBRD loan by 88 for, 4 against and 16 abstentions, which probably represent deputies opposed to the loan.

CHAPIN

JCK/6

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